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# A Comparative Analysis of Corporate Social Responsibility in Commerical Banks: Case Studies from the United States and the United Kingdom

Emily DeMasi

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A COMPARATIVE ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY IN  
COMMERCIAL BANKS:  
CASE STUDIES FROM THE UNITED STATES AND UNITED KINGDOM

A Thesis

Submitted to The McAnulty College & Graduate School of Liberal Arts

Duquesne University

In partial fulfillment of the requirements for  
the degree of Master of Arts

by

Emily DeMasi

May 2011

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Emily DeMasi

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by

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## ABSTRACT

# A COMPARATIVE ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY IN COMMERCIAL BANKS: CASE STUDIES FROM THE UNITED STATES AND UNITED KINGDOM

by

Emily DeMasi

May 2011

Thesis supervised by Charles T. Rubin, PhD, and G. Evan Stoddard, PhD

This comparative study investigates the effectiveness of public sector roles in facilitating corporate social responsibility (CSR) in commercial banks in the United States and the United Kingdom and the role of national context in CSR activities of commercial banks. It takes a qualitative approach in examining CSR as measured by MSCI ESG (environmental, social and governance) Global Socrates ratings across five categories of ESG (environment, employee & supply chain, customers, corporate governance & ethics, and community & society) in six commercial banks to determine whether there is a difference in CSR performance between banks in the US and the UK. Where differences were found, the study sought to determine the probable cause by comparing the ESG rankings to categorized CSR-related government bodies, legislation and policies according to four possible public sector roles as outlined by the World Bank: mandating, facilitating, endorsing or partnering for CSR. The study discovered that,

overall, UK commercial banks outrank US commercial banks in CSR, owing to the *endorsing* nature of CSR-related government bodies, legislation and policies in the UK. However, comparisons of ratings between the five ESG categories reveal *configurational equifinality* in environment, corporate governance & ethics and community & society categories. The principal conclusion is that national context seems to play a role in CSR activities of commercial banks and that certain CSR-related public policy tools appear to be more effective at supporting CSR than others.

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## TABLE OF CONTENTS

ABSTRACT .....	iv
LIST OF TABLES.....	ix
LIST OF FIGURES .....	x
LIST OF ABBREVIATIONS.....	xi
I: Introduction .....	1
II: Literature Review.....	4
A. Problem Definition .....	4
B. Theoretical perspective .....	9
1. Stakeholder theory:.....	9
2. Institutional theory.....	12
3. Neo-Institutional theory.....	14
C. Historical Definitions of CSR.....	16
D. Public Policy and CSR.....	22
E. Comparative Analysis and CSR.....	24
F. CSR and Commercial Banks .....	27
III: Methodology.....	30
A. Research Approach.....	30
B. Research Design.....	31
C. Selection Process.....	35
D. The Data and Collection .....	35
E. Data Analysis .....	36
F. Policy Implications.....	36
IV: Results .....	37
A. UK Commercial Banks Ratings.....	38
1. Barclays .....	38
2. HSBC.....	40
3. Royal Bank of Scotland (RBS).....	41
B. US Commercial Banks Ratings.....	43
1. Bank of America (BAC).....	43
2. Citigroup (C).....	45
3. JP Morgan Chase (JPM) .....	46
C. Overall ESG Ratings Results .....	47
D. Political, Social and Economic Systems.....	49
1. UK Political, Social and Economic Systems.....	49
2. UK Governmental Departments and Policies Pertaining to CSR.....	56
3. US Political Social and Economic Systems.....	59
4. US Governmental Departments and Policies Pertaining to CSR .....	65
V: Comparisons of CSR-related bodies and activities .....	69



VII: Detailed Comparison of ESG Ratings by Sector .....	72
A. Environment.....	75
B. Community & Society .....	79
C. Customers.....	82
D. Employees & Supply Chain.....	85
E. Corporate Governance & Ethics .....	87
VIII: Limits of the Study .....	92
VII: Conclusion and Points for Discussion .....	93
APPENDIX I .....	103

## LIST OF TABLES

	Page
Table 1: Public Sector Roles.....	22
Table 2: MSCI ESG Research Ratings of Commercial Banks.....	48
Table 3: UK CSR-related Government Bodies and Activities .....	57
Table 4: US CSR-related Government Bodies and Activities.....	67
Table 5: Kostyuk et al.'s 12 New Institutional Corporate Governance Features .....	89

## LIST OF FIGURES

	Page
Figure 1: Carroll’s (1999) Pyramid of Corporate Social Responsibility .....	11
Figure 2: Barclay’s MSCI ESG Rating .....	39
Figure 3: HSBC’s MSCI ESG Rating .....	40
Figure 4: Royal Bank of Scotland’s MSCI ESG Rating.....	42
Figure 5: Bank of America’s MSCI ESG Rating .....	43
Figure 6: Citibank’s MSCI ESG Rating .....	45
Figure 7: JP Morgan Chase’s MSCI ESG Rating.....	46
Figure 8: KLD Ratings Scale.....	48
Figure 9: Comparison of MSCI ESG Ratings by ESG Issue.....	74
Figure 10: Comparison of US-UK New Institutional Corporate Governance Features ....	89

## LIST OF ABBREVIATIONS

CSR	Corporate Social Responsibility
ESG	Environmental Social and Governance issues
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
KLD	KLD Research & Analytics Inc.
MSCI	Morgan Stanley Capital International
NGO	Non-governmental Organization
UK	United Kingdom
US	United States

## I: Introduction

My research investigates the effectiveness of the public sector's role in facilitating CSR in commercial banks in the United States and the United Kingdom. I do so by comparing banks' MSCI Research's ratings on ESG issues to answer the following research questions: What effect do public sector CSR policies have on the CSR activities of commercial banks? Are there differences between the ways commercial banks practice CSR in the two countries? Does the industry perspective of CSR supersede the national perspective of CSR, meaning are there no differences to be found between US and UK commercial banks' CSR activities regardless of the different tools used to promote them? Can any differences be attributed to the CSR public policy tools used in their respective governments?

The research relies on MSCI Global Research ratings on ESG issues to approximate CSR for the following reasons. First, there is no consensus among academics on a clear, unbiased definition of CSR, making the concept difficult to assess and measure (Dahlsrud 2006:1). Second, emphasis on ESG issues has become a focus of many CSR efforts ("As You Sow," 2010). Companies increasingly report on these issues, and they are therefore measureable. Lastly, MSCI ratings incorporate analysis of four dimensions of environmental responsibility, five dimensions of social responsibility, three dimensions of governance issues, as well as nine controversial business activities that encompass the diverse definitions of CSR ("KLD Research Ratings Indicators," 2009).<sup>1</sup> These dimensions are in line with the five dimensions (stakeholder, social,

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<sup>1</sup> MSCI ESG Research is the successor to KLD, Innovest and IRRC, which were acquired through the completion of MSCI's June 1, 2010 acquisition of RiskMetrics (Fernandez, 2010). The MSCI ESG Indices use ratings and other data, analysis and information supplied by MSCI ESG Research which is therefore the successor of KLD ESG Research ("MSCI ESG Indices," 2011). The references contained herein were

economic, voluntary and environmental) that Dahlsrud reports to be consistent and congruent with the many available definitions of CSR, making the lack of one universally accepted definition less problematic (Dahlsrud 2006:8).

This research is timely. As the financial markets hit an all-time low some have pointed to CSR or lack of CSR on the part of banks as one of many causes of the financial crisis (Thome 2009). However, little attention has been paid to CSR in the financial services industry in general or commercial banks in particular in the literature to date.

This comparative research is needed. “Comparative studies of corporate social responsibility (CSR) are relatively rare, certainly as contrasted with other related fields, such as comparative corporate governance or comparative corporate law” (Williams and Aguilera 2007:452). It builds upon the body of UK-US comparative research, which Williams and Aguilera point out is of particular importance because it has implications for theories about corporate governance systems in addition to CSR (Williams and Aguilera 2007:453).

Moreover, this research builds upon Fox, Ward and Howard’s CSR baseline study by comparing the UK and US governments’ use of the four public sector roles for promoting CSR. It will investigate individual CSR initiatives in ESG issues and hopefully shed light on which tools are most effective in facilitating CSR. For example, the Community Reinvestment Act of 1977 is an example of a “mandating” role by

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collected prior to 2011 when MSCI updated its website material. Therefore the links and data may no longer be available at the urls in the reference list. For an updated overview of MSCI ESG methodology, please visit “ESG Research Methodology” here:  
[http://www.msci.com/products/indices/thematic\\_and\\_strategy/esg\\_indices/esg\\_research\\_methodology.html](http://www.msci.com/products/indices/thematic_and_strategy/esg_indices/esg_research_methodology.html)

government of CSR. (Vitaliano and Stella 2006:235-236). However, Vitaliano and Stella (2006) explain that while banks must achieve a minimal rating of “satisfactory,” they can choose to go beyond that and be rated “outstanding,” which represents an instance of voluntary CSR (Vitaliano and Stella 2006: 236). Therefore, this research can address the question: Do U.S. commercial banks rank higher than U.K. commercial banks in community measures of CSR? Can this difference be attributed to the mandated nature of community investing in the United States?

A long-standing area of CSR is corporate community contributions, one such community measure. Brammer and Pavelin (2005) found that the value of contributions by U.S. companies in 2001 was more than ten times greater than those of their U.K. counterparts (U.S. \$4.831 billion; U.K. \$428 million) (Matten and Moon 2008:404). Is the same true for commercial banks? If so, is that in part due to the mandating role government has played in community investing in the United States? Can government mandated CSR initiatives be grouped for all measures of ESG? In this way, systematically categorizing the type of government CSR roles and their effectiveness and differences across US and UK examples is a useful step in comparative CSR research.

Lastly, this research has a unique focus on the commercial banking sector concerning CSR. Firstly, commercial banks have been researched for their regulatory frameworks and financial performance as they relate to CSR, but never in a way that analyzed CSR (as measured by MSCI ratings on ESG issues) as the dependent variable. Secondly, CSR has long been researched from the business management perspective and is widely accepted as a voluntary action on the part of business (Steurer 2009:55). However, by holding public sector CSR policies as the independent variable, this study

hopes to fill a gap in the research of the effectiveness of CSR public policies in achieving their goals (Steurer 2009:68).

While the case study approach is not unique in CSR literature, conducting comparative and qualitative research using a case study methodology in ESG issues is unique. I chose the United States and United Kingdom as my national contexts to build upon “most similar case” approaches to show differences in companies’ approaches to CSR in countries with seemingly similar socio-political traditions (Williams and Aguilera 2007:453).

## II: Literature Review

This literature review is organized thematically. It begins with the literature that defines the problem taken up by this study. It next looks at the theoretical framework for this study and the historic definitions of CSR. It then summarizes emerging literature on the public policy role in shaping CSR. Finally, it touches upon the available literature on comparative analysis in the CSR field and the research relating to CSR in commercial banks specifically.

### A. Problem Definition

CSR is highly contextual not only in terms of its corporate environment but also in terms of its national environment (Moon 2004:2). Often this situation is portrayed as an Anglo-Saxon versus Continental European view of business responsibility and business culture; however, major differences exist within the Anglo-Saxon tradition (Williams and Aguilera 2007:458). While British and Americans have complementary definitions of



global CSR, their different economic and political cultures cause business leaders as well as government officials to translate these definitions into actions differently (Aaronson 2003:310).

Matten and Moon (2008) claim that these differences are evident in the ways in which corporations in the United States and the United Kingdom treat CSR. In the former it is more explicit, meaning voluntary or self-interest-driven policies on the part of corporations, where in the latter it is more implicit, meaning mandatory and customary requirements on corporations imposed by formal and informal institutions (Matten and Moon 2008:11). However, this position treats CSR as dominantly business-driven and detached from political initiative (Midttun, Gautesen and Gjølberg 2006:370).

Aaronson (2003), on the other hand, found it interesting that the U.S. and Britain, two nations with similar political and entrepreneurial cultures, have taken such different approaches to CSR public policies:

In Britain, concern about global corporate responsibility has led to the development by policy-makers of a flexible multi-stakeholder approach to promoting CSR. In the U.S., however, despite the corporate governance scandals, there is still a sense that market forces will take care of social responsibility by rewarding saints and punishing sinners. Yet the recent corporate responsibility scandals reveal that markets might take a long time to correct for problems. Moreover, sunshine cannot always prevent such failures. Thus, public policies might play a helpful role—especially policies that delineate the responsibilities of global firms. (Aaronson 2003:312)

More and more, governments are interested in CSR as a vehicle to achieve policy objectives, as a complement for hard-law regulations and to address governance gaps and societal needs (Steurer 2009:50-51). There are a range of roles that public sector agencies have played in providing an “enabling environment” for CSR (Fox, Ward and Howard 2002:iii). In their baseline study of public sector roles in strengthening CSR, Fox et. al. (2002) identified four principal roles that reflect the overall range of government CSR initiatives: mandating, facilitating, partnering, and endorsing (Fox et. al. 2002:3).

Fox et. al. (2002) assert that in their “mandating” role, governments at different levels define minimum standards for business performance embedded within the legal framework. In their “facilitating” role, public sector agencies enable or incentivize companies to engage with the CSR agenda or to drive social and environmental improvements. In their “partnership” role, public sector bodies may act as participants, conveners, or facilitators in tackling complex social and environmental problems. “Endorsement,” on the other hand, can take various forms, including through policy documents, the “demonstration” effect of public procurement or public sector management practices, or direct recognition of the efforts of individual enterprises through award schemes (Fox et. al. 2002:3-6).

Two recent studies with diverging views on the United States’ place in the CSR movement led me to focus on the role of national context’s influence on CSR and tools governments can use to promote CSR. The first view was presented by Dirk Matten and Jeremy Moon (2008) regarding differences between U.S. and European companies in adopting CSR. Matten and Moon conducted a comparative study that identified

remarkable differences between European companies and U.S. companies in regards to their CSR activities. Notably, they reviewed literature on a study about self-presentations on the Internet by Maignan and Ralston in 2002 that found that 53% of U.S. companies mention CSR explicitly on their websites compared to only 29% of French companies and 25% of Dutch companies (Matten and Moon 2008: 404).

In another study on voluntary codes of conduct in the global coffee sector between 1994 and 2005, Kolk identified a total of 15 corporate codes globally, of which only two were European while the remaining 13 were issued and adopted exclusively by U.S. corporations (Matten and Moon 2008: 404). In a similar comparative study, Brammer and Pavelin found that in the U.S. and U.K. the value of corporate community contributions (a long-standing area of CSR) by U.S. companies was 10 times greater than those of their U.K. counterparts (Matten and Moon 2008: 404). From these studies it might be concluded that business-led initiatives on CSR in the United States outweigh those conducted by their European neighbors.

However, in an opposing vein, *The State of Responsible Competitiveness*, a report produced by authors at the global nonprofit AccountAbility, ranked the United States 18th in overall competitiveness for sustainability in 2007 (Zadek and MacGillivray 2007: 143). Their progress report assesses responsible business practices of 108 countries and illuminates which countries have social conditions and are advancing public policies that encourage responsible competitiveness. Thirteen of the 'Top 20' list are European countries; the United Kingdom ranked 5<sup>th</sup>. They are joined by Hong Kong, Japan, Singapore, Canada, the United States, Australia and New Zealand (Zadek and MacGillivray 2007: 143).

What can explain this dichotomy, where U.S. corporations rate high compared to European Union countries in CSR yet trail their counterparts in an overall rating of embedding responsible business practices at the heart of their economies?

Studies have found that business culture plays a significant role in how CSR is adopted and implemented. Historically, the United States has not been as open as European countries to the idea of corporate social responsibility (Albareda, Lozano and Ysa 2007:393). CSR is defined by Albareda et. al. as a process by which companies voluntarily contribute to a better society and cleaner environment and also as a process by which companies manage their relationships with stakeholders (Albareda et al. 2007:391). Albareda et al. claim that CSR has not developed to as great an extent in the United States because of lack of trust and authority issues in American business and politics (Albareda et al. 2007: 393-394).

The work of Aaronson and Reeves (2002a) back this claim by analyzing how, in the last decade, European policymakers have taken a wide range of public initiatives to promote CSR, in contrast with a lack of policies in the U.S (Albareda et al. 2007:393). They analyzed European-based companies' acceptance of these CSR public policies compared with the less accepting attitude of U.S.-based companies. The authors argue that the difference is based on the countries' respective business cultures. This research reveals that European-based companies "are more comfortable working with governments to improve social conditions, and they are more comfortable in a regulated environment" (Albareda et al. 2007:394). These developments seem odd, considering that the US is often regarded as the "birthplace" of CSR (Bertelsmann Stiftung and GTZ 2007:169).

A report by Bertelsmann Stiftung claims that The United Kingdom is one of the nations where CSR is most advanced (Bertelsmann Stiftung and GTZ 2007:154). It attributes this ranking to the high cooperation between business and government, where public sector actors actively shape CSR (Bertelsmann Stiftung and GTZ 2007:154). In fact, “the maturity level of the UK’s CSR politics and policies has to be seen as comprehensively developed. There is a clearly defined responsibility for CSR and an overall strategy, with cooperation among departments and integration of stakeholders, as well as a wide range of CSR activities” (Bertelsmann Stiftung and GTZ 2007:154).

Differences among these authors suggest the present research questions: what impact do national differences have on the businesses operating within these two countries and is there a way to compare these differences? By analyzing the same four public policy tools’ influence on commercial banks’ CSR activities I hope to shed light on the effectiveness of public policies and the differences that arise due to national context.

## B. Theoretical perspective

### 1. Stakeholder theory:

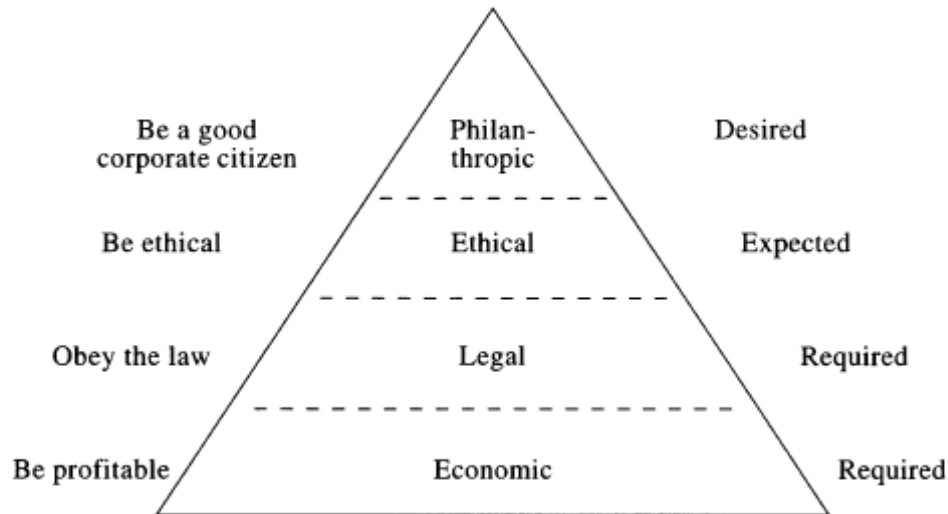
Theoretical perspectives of CSR have changed drastically over the past five decades, but the current research will focus on three leading CSR theories: stakeholder theory, institutional theory and neo-institutional theory (Lee 2008:58). The concept of stakeholders first surfaced in business management literatures in the 1960s and several variants of stakeholder theory were already being tested by major corporations like General Electric by the 1970s; however, the stakeholder approach remained mostly

scattered and peripheral to management scholarship until the mid-1980s (Lee 2008:61). In 1984 Edward Freeman was the first scholar to construct a coherent and systematic theory of stakeholder management in his book *Strategic Management: A Stakeholder Approach* (Lee 2008:61). The book outlined the intellectual history of the stakeholder concept and described the theory that if a stakeholder, defined as “any group or individual that can affect or is effected by the achievement of a corporation’s purpose,” could affect the firm then managers needed an explicit strategy for dealing with that stakeholder (Freeman 1984:228). Furthermore, Freeman identified and modeled the groups that are stakeholders of a corporation, that is, all the groups that are affected and can affect the survival of a corporation such as employees, governments and customers (Lee 2008:61). Stakeholder theory has gradually moved to the center stage of research in business and society relations and plays a role in the present research. It explains the prominent role government plays as a stakeholder to business and therefore the effect government sector roles can play on the CSR policies of corporations like commercial banks.

In his work on stakeholder theory, Archie Carroll (1991 revised 2004) used the metaphor of a pyramid to outline the four kinds of social responsibility that business has with respect to global business stakeholders. In it, government, or legal obligations, play a dominant role:

Figure 1:

**Carroll's (1991) Pyramid of Corporate Social Responsibility**



Source: A. B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," *Business Horizons* (July–August 1991): 39–48.

Mitchell, Agle and Wood (1997) expanded on Freeman's theory and helped classify Carroll's stakeholders by basing stakeholder identification and salience on stakeholders possessing one or more of three relationship attributes: power, legitimacy and urgency (Mitchell, Agle and Wood 1997:853). Government, as a stakeholder, by Mitchell et. al.'s definitions, has the possibility of having all three attributes. A party to a relationship has *power*, to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship (Mitchell et. al. 2007:865). *Legitimacy* means "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Mitchell et. al. 2007:866). Lastly, *urgency* is the degree to which stakeholder claims call for immediate attention.

While stakeholder perspective is the most widely used theoretical framework for discussing CSR the most recent stakeholder research tends to focus on CSR and financial performance of the corporation (McWilliams and Siegel 2001). While such studies explain if socially responsible firms outperform those firms that do not meet the same social criteria, they do not investigate the role of national context or government sector roles in influencing CSR. However, McWilliams and Siegel (2001) do include insight on government as an important stakeholder in the CSR debate, offering up hypotheses that show a positive correlation between government contracts and the provision of CSR (McWilliams and Siegel 2001). Because of its focus on government as a major and legitimate stakeholder for CSR, stakeholder theory is a building block for the current research.

## 2. Institutional theory

Institutional theory is another leading theory of CSR that is more directly related to the role of national context in influencing CSR policies. Jonathon Doh and Terrence Guay (2006) made headway in extending stakeholder theory to show how differences in the institutional environments of Europe and the United States affect expectations about corporate responsibilities to society and how these differences are manifested in government policy. In an analysis of three case studies (global warming, trade in genetically modified organisms, and pricing of anti-viral pharmaceuticals in developing countries) Doh and Guay (2006) found that different institutional structures and political legacies in the US and European Union are important factors in explaining how governments, NGOs and the broader polity determine and implement preferences



regarding CSR (Doh and Guay 2006: 47). In the same way I hope to identify how public sector roles in the US and UK help determine and influence commercial banks' CSR activities.

Doh and Guay's (2006) findings had a strong impact on the subsequent work produced and analyzed by John Campbell (2007), whose theories heavily influence my research on the national context of CSR. Campbell argues that the relationship between basic economic conditions and corporate behavior is mediated by several institutional conditions: public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behavior, institutionalized norms regarding appropriate corporate behavior, associative behavior among corporations themselves, and organized dialogues among corporations and their stakeholders (Campbell 2007:946). In particular, I rely on Campbell's third proposition concerning a corporation's likelihood to act in a socially responsible way: "Corporations will be more likely to act in socially responsible ways if there are strong and well enforced state regulations in place to ensure behavior, particularly if the process by which these regulations and enforcement capacities were developed are based on negotiation and consensus building among corporations, government and the other relevant stakeholders" (Campbell 2007:955). This proposition also builds directly from Carroll's work (1979), which specified that organizations' obligations must "encompass the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time" (Carroll 1979:500).

"Building on Carroll's (1979) work, Maignan and colleagues conceptualized another version of CSR, developed an instrument to measure CSR practices, and

validated the instrument in France and the United States (Maignan, 1997; Maignan and Ferrell, 2001; Maignan et al., 1999)” (Lindgreen, Swaen and Johnston 2009:304).

Specifically, they replaced “society” with “stakeholder expectations” and defined CSR as “the extent to which businesses assume the economic, legal, ethical and discretionary responsibilities imposed on them by their various stakeholders (Maignan et al., 1999:457)” (Lindgreen et. al. 2009:304).

Since stakeholder theory informs us that government is a major stakeholder for corporations, it makes sense to try to determine the relationship between the public sector CSR roles and the CSR activities of corporations. Since institutional theory informs us that corporations may act differently given their institutional conditions (like public and private regulation, the presence of nongovernmental and other independent organizations that monitor corporate behavior, institutionalized norms regarding appropriate corporate behavior, etc.), it must too be considered as a potentially determining factor in the present research.

### 3. Neo-Institutional theory

The only additional theory the present research takes into consideration is the neo-institutional approach to CSR. It does so to understand the potential limits of attributing public sector roles and national context as individual and unique determinants of corporate CSR policies. Boxenbaum (2006) describes neo-institutional theory as one that conceptualizes CSR constructs as potential or actual institutions (Boxenbaum 2006:1). Boxenbaum further explains that in addition to the actual regulative institutions that are the subject of this research, there are potential institutions that also affect CSR practices,

namely normative and cognitive institutions (Boxenbaum 2006:3). While this research includes normative elements of national context it does not attempt to collect and measure the cognitive institutions at work in forming CSR.

Boxenbaum argues that there are many different CSR constructs, and they draw on quite different elements and traditions in their CSR definitions. Moreover, these differences can manifest themselves in divergent CSR practices across nations (Boxenbaum 2006:1-2). Boxenbaum points to the fact that socially responsible investment and philanthropy are most widespread in United States, while formal reporting on social and environmental performance is only obligatory in France (Boxenbaum 2006:2). She points to the United Kingdom where pension funds are obliged to make their investment criteria transparent, while in Denmark there are legal and administrative provisions to optimize socially responsible human resource management (Boxenbaum 2006:2). “Empirical research confirms that there are national variations in CSR constructs (Maignan & Ralston, 2002), and that CSR constructs therefore do not travel easily across societal boundaries (Rowley & Berman, 2000)” (Boxenbaum 2006:2). Boxenbaum further explains that,

Neo-institutional theory operates with three types of institutions. Cognitive institutions are the worldview, the collective beliefs about the social world, or, more precisely, the causal relations believed to guide social interaction (Dobbin, 1994). Normative institutions are the collective norms that determine appropriate behaviour, that designate which goals are valuable to pursue and how to legitimately pursue them (Scott, 1987, 1994). Regulative institutions are the formal rules and regulations that carry formal sanctions if violated, e.g., laws. The

three types of institutions overlap considerably with one another, but are rarely fully separable in practice (Scott, 2001). (Boxenbaum 2006:3)

The extended definition of “institutions” advocated by the neo-institutionalists requires I proceed with caution in attributing ultimate responsibility to public sector roles for determining the CSR policies of corporations.

I hope to mitigate this issue by my industry focus: commercial banks. In her book, *Corporate Social Responsibility – A Comparative Analysis of Germany and the USA*, Corinna Sinzig (2010) attempts to determine the factors that lead corporations to adopt and implement CSR practices (Sinzig 2010:10). She uses neo-institutional theory to investigate the institutional determinants of CSR. In it she points to industry and sector as determinants of CSR. “Since corporations are acting under the same industrial surfaces with identical challenges, similar CSR policies of organizations are probable to develop and expand. Given this, it can be stated that sectors are representing a fundamental boundary of institutional fields” (Sinzig 2010:11). Neo-institutional theory will aid in understanding the limits of this research’s findings.

### C. Historical Definitions of CSR

As theoretical perspectives of CSR have changed over time, so have definitions of CSR. Since Bowen’s seminal book *Social Responsibilities of the Businessman* in 1953, which marked the beginning of the academic research on CSR, there has been a shift in terminology from the “social responsibility” of business to CSR (Garriga and Mele 2004:51). “However, in both the corporate and the academic world there is uncertainty as to how CSR should be defined” (Dahlsrud 2006:1). What makes any research on this

topic difficult is the complexity of the CSR issue and actors involved. This complexity contributes to, but also in some measure is produced by, the fact that definitions of what CSR is vary dramatically and have changed substantially over time. To guide this research, I will briefly outline the development of CSR's definition, identify four prevailing CSR definitions and signify which will be incorporated for use in this study.

I will not provide a comprehensive review of the development of CSR definitions over time as this job has been done elsewhere (Carroll 1999; Dahlsrud 2006). This outline is provided only to inform the reader of major shifts in CSR's history and to understand how CSR has transformed from a "voluntary" business concept to a public sector tool which seeks to encourage and frame CSR through "soft legislation" (Moon 2004:3), thus setting the framework for the analysis in this research.

Back in 1953 Bowen defined the social responsibilities of businessmen as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society (Lee 2008:57). Beyond Bowen there was little by way of CSR definitions in literature. The 1960s marked a significant growth of attempts to formalize CSR (Carroll 1999:270). Some of the earliest contributors (Davis, 1960, Frederick, 1960, McGuire, 1963 and Walton 1967) focus on business and society and responsibilities beyond the firm (Carroll 1999:270-273).

In the 1970s the literature increasingly contained mention of the terms corporate social performance (CSP) as well as CSR (Carroll 1999:279). At the same time public intellectual and Nobel-prize winning economist Milton Friedman's (1962, 1972b) writings vehemently opposed the idea of CSR on the grounds that it imposed an unfair

and costly burden on shareholders (Lee 2008:55). According to Milton Friedman “the social responsibility of business is to increase profits” (Friedman 1970). These divergent views and definitions of CSR sparked a debate which continues to this day (Cramer 2010).

The writings and research of the 1970s focused on developing new and refined definitions of CSR while the 1980s were dominated by the splintering of writings into alternative concepts and themes such as corporate social responsiveness, public policy, business ethics and stakeholder theory to name a few (Carroll 1999:284). It was during this time when the public policy aspect of CSR entered the discussion.

In a book entitled *Private Management and Public Policy: The Principle of Public Responsibility*, Lee Preston and James Post (1975) sought to draw attention away from the concept of CSR and toward a notion of public responsibility (Carroll 1999:279). Preston and Post preferred the word “public” rather than “social,” “to stress the importance of the public policy process, rather than individual opinion and conscience, as the source of goals and appraisal criteria (p. 102)” (Carroll 1999:280). While their term “public responsibility” never caught on in the literature, the public aspect of Preston and Post’s work certainly resurfaced in subsequent research and writing (Carroll 1999:280).

Specifically in 1976, H. Gordon Fitch defined CSR in terms of solving social problems by stating, “Corporate social responsibility is defined as the serious attempt to solve social problems caused wholly or in part by the corporation (Fitch, 1976, p. 38)” (Carroll 1999:281).

Carroll argues that the 1980s witnessed fewer “original” definitions of CSR and that the focus was more on measurement and alternative thematic frameworks while the

1990s expanded on alternative themes while contributing also little to new definitions (Carroll 1999:292). In 1999, Carroll rightly predicted that, “the CSR concept has a bright future because at its core it addresses and captures the most important concerns of the public regarding business and society relationships.” Indeed, subsequent literature on CSR has drawn heavily on Carroll’s definition which was based on his theoretical stakeholder pyramid:

It is suggested here that four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid. To be sure, all of these kinds of responsibilities have always existed to some extent, but it has only been in recent years that ethical and philanthropic functions have taken a significant place. (Carroll 1991:40)

John L. Campbell’s definition of CSR boils corporate action down into more easily quantifiable terms. That is, a corporation is acting in a socially responsible way if it does two things. First, it must not knowingly do anything that could harm its “stakeholders,” i.e., a corporation’s investors, employees, customers, suppliers and the local communities within which it operates. Second, if a corporation does cause harm to its stakeholders, it must rectify the harm whenever it is discovered and brought to the corporation’s attention (Campbell 2007).

Dirk Matten and Jeremy Moon (2008) took a business-centric approach to defining CSR. I include their definitions of “implicit” versus “explicit” CSR because they help in categorizing the types of CSR commercial banks use. “Explicit CSR” refers to corporate policies, generated “explicitly” by the corporation, that assume and articulate

responsibility for some societal interests through voluntary programs and corporate strategy. “Implicit CSR,” on the other hand, deals with a corporations’ role within the wider formal and informal institutions for articulating society’s interests and concerns. In other words, implicit CSR consists of values, norms and rules that result in requirements for corporations, both mandatory and customary, to address corporate obligations to stakeholders (Matten and Moon 2008:409).

While using less awkward terminology, Albareda et al. took a similar approach for the public sector, considering government CSR public policies explicit when government action develops, facilitates and provides incentives for CSR through policies, programs and legal instruments (Albareda et. al. 2007:394 and 402). The United Kingdom government has been one of the most innovative in the development of a political CSR framework (Albareda et. al. 2007:402). On the other hand, the United States advocates voluntary involvement in CSR. Here, companies bring CSR initiatives into commercial practices and corporate management on a voluntary basis, quite apart from any legal requirements (Albareda et. al. 2007:402).

The issue of the “voluntary” nature of CSR and defining it as such complicates looking at how the public sector may influence CSR. Indeed, it is a commonly maintained view that CSR is essentially about going “beyond compliance” (Fox et. al. 2002:1). This view is confirmed by Dahlsrud’s 2006 content analysis of existing CSR definitions. Based on frequency counts from Google, the Commission of the European Communities 2001 CSR definition was the most frequently used at 286 counts (Dahlsrud 2006:7). This definition stated that CSR was: “A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction



with their stakeholders on a voluntary basis” (Dahlsrud 2006:7). However as Fox et. al (2002) point out, “assessing the role of the public sector by considering only those initiatives that provide incentives for business to go ‘beyond compliance’ would fail to take account of the dynamic linkages between voluntary approaches and regulation and the potential for voluntary initiatives of various kinds to crystallize, over time, into mandatory minimum standards” (Fox et al. 2002:1).

Therefore, this research will use the same definition used by Fox et. al (2002) regarding CSR. That is the definition put forth by The World Business Council for Sustainable Development (WBCSD) which has defined corporate social responsibility as “[t]he commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life” (Fox et al. 2002:1). This definition is the second most frequently cited by Google at 180 counts, according to Dahlsrud’s study (Dahlsrud 2006:7).

For the purpose of this research I will use the United States Government Accountability Office’s (GAO) classification of government roles in CSR which is based on Fox et. al.’s World Bank report definitions, provided in the methodology section of this proposal. The GAO’s definitions are summarized in the following chart which can be found in the GAO-05-744 Report to Congressional Requestors (GAO 2005).

Table 1: Public Sector Roles

<b>Mandating</b>	<b>‘Command and control’ legislation</b>	<b>Regulators and inspectorates</b>	<b>Legal and fiscal penalties and rewards</b>
Facilitating	‘Enabling’ legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Source: Fox, Ward, Howard (2002), The World Bank

#### D. Public Policy and CSR

I now focus more narrowly on the public sector’s role in CSR as identified in the literature. While definitions of CSR that refer to public policy date back to the 1970s, the literature concerning the public sector role in influencing CSR is still nascent. In 2003, The World Bank held an e-conference entitled “Public Policy for Corporate Social Responsibility.” In it, they described the role of the public sector in CSR as a complex and an emerging field (The World Bank Institute 2003:2).

This e-conference came one year after Tom Fox, Halina Ward and Bruce Howard (2002) took a comprehensive look at public sector roles in strengthening corporate social responsibility in their baseline study produced for the World Bank in 2002. In addition to defining the public sector roles that will be used in this research (see methodology section), they also provide a definition for an “enabling environment” for CSR. Fox et al.

define “enabling environment” as “a policy environment that encourages (or mandates) business activity that minimizes environmental and/or social costs and impacts while at the same time maintaining or maximizing economic gains” (Fox, Ward and Howard 2002:1). The present study will help to determine which country, the U.S. or U.K., creates a more “enabling environment” for commercial banks to practice CSR by comparing MSCI ESG ratings (a measure of CSR) across the six largest commercial banks.

The limit of Fox, Ward and Howard’s (2002) study, which is symptomatic of much of the literature on CSR, is the global perspective of the “enabling environment.” The study concludes that there is no comprehensive list of public sector initiatives that takes account of the national or local “CSR context” for individual initiatives on CSR. The present research hopes to address this gap by looking at the national CSR-related public policies and CSR-related legislature that affects corporations’ CSR activities as measured by their ESG ratings.

One study that did take into account national initiatives of CSR was the United States Government Accountability Office’s 2005 study, which took an in-depth look at federal activities related to CSR in response to globalization and the trend of increased foreign direct investment in developing countries. It found that there is no comprehensive legislation mandating a federal role in global CSR, few agencies actually define CSR and over 50 programs at 12 agencies are related to global CSR (GAO 2005:16). James Reeves, associate project director at the Kenan Institute, confirms; “it is still unclear whether the U.S. government finds global CSR a priority” (Baue 2003). Secondly, there are no federal laws referring directly to CSR although there are a number

of longstanding laws that are related to CSR (GAO 2005). The present research hopes to understand whether this lack of mandatory CSR on a federal level leads to lower ratings of CSR activities in U.S. commercial banks.

This research will also draw from the findings of one of Germany's leading foundations, the Bertelsmann Stiftung and GTZ (2007), whose latest study on CSR views CSR from a public policy perspective. The foundation investigated drivers behind national CSR policy-making, analyzed existing instruments and highlighted the respective maturity of CSR policies of 13 countries. In sum, the profile on the United States reported no unifying federal strategy regarding CSR public policy in the US, with considerable variation in CSR policies across states (lack of an explicit governmental approach); while the UK was found to have a very mature level of CSR, with clearly defined responsibilities and an overall strategy (a more explicit governmental approach), with cooperation among departments and integration of stakeholders, as well as a wide range of CSR activities (Bertelsmann Stiftung and GTZ 2007).

#### E. Comparative Analysis and CSR

Studies like the public policy research mentioned above are beneficial in comparing which policies work best in different settings. The current research hopes to add to the growing comparative literature regarding CSR. "Comparative studies of corporate social responsibility (CSR) are relatively rare, certainly as contrasted with other related fields, such as comparative corporate governance or comparative corporate law" (Williams and Aguilera 2007:452). To explore this gap Williams and Aguilera (2007) provide a

comprehensive review of the available literature regarding comparative studies of corporate social responsibility and denote areas which need further study.

They break down the literature on comparative aspects into six main themes regarding CSR: (1) Comparative Legal Analysis, (2) Comparative Institutional Analysis, (3) Corporate Governance Systems, (4) Attitudes of Managers, (5) Attitudes of Consumers and (6) Cross-national Behaviors (Williams and Aguilera 2007:Chapter 20). A number of comparative studies have looked at companies' sustainability reporting, evaluating differences across countries in reporting rates, in the issues discussed, and in how CSR issues are framed. These studies consistently find that reporting rates are highest in Europe, followed by Japan, and with the United States showing the lowest rates of reporting among comparable companies (Kolk, 2003; KPMG, 2005; Kolk, forthcoming; Welford, 2005) (Williams and Aguilera 2007:465).

The present research builds upon this comparative analysis by incorporating more than one of the thematic areas delineated by Williams and Aguilera, above. Namely, this research provides a comparative institutional analysis, taking into consideration corporate governance systems to help explain cross-national behaviors between the US and UK that may contribute to differences in CSR activities of commercial banks.

There is the possibility that there are no differences to be found between CSR activities of commercial banks. Bansal and Roth (2000) focused their research on motivations and contextual factors that induce corporate ecological responsiveness in two countries, the UK and Japan. In their model they assumed that the notion of equifinality could be applied to the ecological setting. "Katz and Kahn suggested that 'a system can reach the same final state [for instance, the same level of organizational effectiveness]

from differing initial conditions and by a variety of paths (1978: 30)''' (Bansal and Roth 2000:731). Bansal and Roth found there are three configurational profiles that lead to high responsiveness in the ecological area: the caring profile based on individual social concerns of a charismatic and powerful manager, the competitive profile based on high individual concern and low field cohesion and the concerned profile based on field cohesion and issue salience (Bansal and Roth 2000:732). In their conclusion Bansal and Roth did not account for cultural dimensions in their findings and did not report which country exhibited higher rates of ecological responsiveness overall (Bansal and Roth 2000:732-733). Here too, my research assumes that ESG Ratings, a measure of corporate CSR, could reveal configurational equifinality when they meet the conditions outlined by Bansal and Roth (Bansal and Roth 2000:732). However the present research goes a step further to report on which country, the US or UK, is more responsive in different areas of ESG.

Configurational equifinality is characterized by incompatible functional demands on an organization and an unconstrained range of responses (Bansal and Roth 2000:732). Applied to this study, these conditions imply that a corporation's ESG agenda often competes with other functional agendas for resources. Further, the national contextual conditions and motivations permit a wide range of possible initiatives or organizational responses. Therefore it can be expected that multiple configurational profiles may lead to the same level of ESG responsiveness and thus similar ESG ratings between commercial banks. (Bansal and Roth 2000:732).

## F. CSR and Commercial Banks

Lastly, I turn to literature regarding CSR in commercial banks. Like the literature pertaining to public policies' role in CSR, the research concerning commercial banks and CSR is scarce in an otherwise robust topic. However, banks are a good industry for CSR research because they constitute a sector that is both highly visible to public evaluation and a major contributor to economic stability and growth. Banks also have a wide spectrum of stakeholders, including owners, borrowers, depositors, regulators and managers (Yamak and Suer 2005).

A 2006 European Union research project entitled *Rhetoric and Realities: Analysing Corporate Social Responsibility in Europe (RARE)*, looked specifically at CSR in the European banking sector and found:

According to literature the banking sector has been quite slow in considering the consequences of the issue of sustainability, despite of the fact of their exposure to risk having an intermediary role in the economy. Referring to the relevant literature from 1990 to 2000, banks began addressing the issue of sustainability by considering firstly environmental and then social issues and attempting to incorporate them by established policies for the environment and society. (RARE 2006:5)

While the RARE study did not focus on commercial banks exclusively, its sample did consist mostly of commercial banks (13 representing 76% of the sample) (RARE 2006:25). The interesting finding related to the present research is that more than four

fifth of banks (14 out of 17) stressed that compliance with mandatory social and environmental regulation is “very relevant,” while fourteen banks (representing 82% of our sample and 88% of answers) stressed that the “meeting of non-mandatory government recommendations” and “activities that go beyond mandatory legislation” are relevant too (RARE 2006:12). These results show that public policy CSR initiatives both mandatory and recommended are influential in commercial banks’ CSR programs, at least across Europe.

A similar study attempted a cross-national comparison of CSR in international banks (Scholtens 2008). I include the results of this research as it will be the most comparable to my own and implies a critique of my methodology. The critique concerns the use of MSCI data to measure social conduct and performance, and thus CSR. “Currently, it is mainly rating institutions like EIRIS and MSCI that provide information about firms’ social conduct and performance. However, this is costly information and it is not clear how the rating institutions arrive at their conclusion” (Scholtens 2008:159).

To address this problem, Scholtens’ framework relied on a “digital” scoring of either 1 or 0 where a score of 1 denotes action on the part of a corporation in a list of 31 possible CSR initiatives and a score of 0 denotes no action in that specific area (Scholtens 2008:162). However, Scholtens admits to the limits of this type of scoring as the results lose nuances since a bank is said to comply or not or to perform or not, whereas the degree or intensity by which the bank does so is not taken into consideration (Scholtens 2008:163). Although I take Scholtens critique of MSCI ratings into consideration, I believe the robustness of the data MSCI collects allows for the nuances in banks’ CSR responses in a way that is not captured in Scholtens results.



In other recent research, researchers at Simon Fraser University looked at the relation between corporate social responsibility disclosure and financial performance evidence from the commercial banking industry (Cheung and Mak 2010). Their research, like most research on CSR, has focused on the consequences of CSR implementation—or lack of implementation—on financial performance, with little attention to comparative issues (e.g. McWilliams and Siegel, 2000; Margolis and Walsh, 2003; Barnett and Salomon, 2006) (Williams and Aguilera 2007:453). Cheung and Mak concluded that the relationship between CSR disclosure and financial performance is neutral. They used ESG disclosures to approximate corporate social responsibility, as I am proposing to do here. Whereas the present research relies on MSCI Socrates Global ESG Ratings, Cheung and Mak used ESG disclosures collected from Bloomberg (Cheung and Mak 2010:14), but the underlying idea is the same.

Cheung and Mak's research adds to the present research with a succinct review of the literature regarding CSR disclosure and the banking industry. They point out that relatively little has been undertaken focusing on CSR disclosure by banks, citing Banco and Rodrigues (2008), Douglas et. al (2004) and Tarna (1999) (Cheung and Mak 2010:7).

The only CSR national context of commercial bank studies were conducted by Banco and Rodrigues (2008), who examined Portuguese banks' socially responsibility disclosure (SRD) in 2004 and 2005, and Douglas et al. (2004) who studied SRD for six Irish banks and four international financial institutions between 1998 – 2001 (Cheung and Mak 2010:7).

In a paper entitled, "What role does the financial sector play in the development of CSR," Anne-Marie Kammerer focuses on what she calls "best in class" in the banking

sector according to 2007 rankings by Covalence (Ethical ranking 2007 banking sector), Ceres (Corporate Governance and Climate Change: The Banking Sector), and DJSI World (Kammerer 2008:14). These banks were HSBC, ABN Amro and Barclays and they were compared based exclusively on the basis of their CSR reports. Kammerer addresses how these banks approach CSR, the main challenges facing banks and opportunities for banks to expand their activities in CSR (Kammerer 2008:19). This research hopes to add to the case-study approach in the financial sector/ CSR literature.

### III: Methodology

#### A. Research Approach

This thesis takes a qualitative approach to examining the effects of the independent variable, which in this case is public sector roles of either mandating, facilitating, partnering, or endorsing CSR on the dependent variable, the CSR policies of commercial banks, taking into account national context, which is the intervening variable.

The null hypothesis to be tested is, “There are no differences in CSR policies of commercial banks in the United Kingdom versus the United States.” If the null hypothesis is true, one would expect to find broadly similar ESG ratings among commercial banks regardless of national context or the public policy tools used to promote CSR. The conceptual framework for this research is Bansal and Roth’s (2000) model of configurational equifinality that one sometimes finds among firms. That is, firms, regardless of their country of origin, can reach the same final state of responsiveness from differing contextual and motivational conditions and take distinct paths to reach the same outcome (Williams and Aguilera 2007:464).

If the null hypothesis is false and there are differences to be found, this research will ask, what are the possible causes of these differences? Does the national context and types of public sector roles used create differences in ESG ratings?

## B. Research Design

Comparisons are made between case studies of the top three commercial banks in the United States and the United Kingdom namely, JP Morgan Chase, Bank of America and Citibank versus Royal Bank of Scotland, HSBC Holdings and Barclays, using information collected from MSCI Global Socrates comprehensive database, which measures the environmental, social and governance (ESG) performance of corporations. Overall measurement of CSR is based on MSCI ratings methodology, but each company will be compared across five subcategories categories of CSR activities pertaining to environmental, social and governance initiatives: environment, customers, corporate governance & business ethics, community & society and employee & supply chain (MSCI 2011). This research asks, in which of these five areas are banks most responsive? Are there more differences or similarities in CSR initiatives between commercial banks in the UK and in the US? Why do these similarities or differences exist? Are differences due to the public sector CSR initiatives at work in the country?

In order to answer these questions, the research uses the following definitions:

*Commercial Banks:* An institution that accepts deposits, makes business loans, and offers related services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to

make a profit. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses (“InvestorWords,” 2010).

*Corporate social responsibility (CSR):* Pertains to the overall impact of corporations on society at large. It extends beyond the interests of shareholders to the interests and needs of diverse stakeholders. It includes environmental, social, and governance (ESG) issues (Bansal, Maurer and Slawinski 2008). “It is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life” (Fox et al. 2002: 1).

*Government CSR activity:* United States and United Kingdom agencies, programs and policies that generally fall into four roles of endorsing, facilitating, partnering, or mandating CSR.

In order to define properly national government CSR activity it is necessary also to have working definitions for the four variables detailed above. For these I will draw from the Government Accountability Office’s Report (2005): These working definitions are in line with the World Bank Institute’s and are summarized in the second table on Appendix I.

*Endorsing CSR:* These are activities that either provide awards for CSR activities or discuss CSR in public speeches.

*Facilitating CSR:* These are activities that provide CSR information or grants to address CSR issues.

*Partnering for CSR:* These are activities that facilitate public-private partnerships and convening stakeholders. For clarity here public-private partnerships are defined as relationships among governments, businesses and civil society in order to address CSR issues and stakeholders are defined as investors, employees, customers, suppliers and/or the local communities within which corporations operate.

*Mandating CSR:* These are activities that mandate CSR for participating companies and regulate CSR activities.

Other definitions revolve around the MSCI ratings used in this study:

*ESG:* Environmental, social, and governance factors that may result in risk or opportunities to a company's valuation (Bloomberg Terminal 2011)

*ESG Rating:* A rating by MSCI Global Socrates on companies in seven major qualitative issue areas: Environment, Community, Corporate Governance, Diversity, Employee Relations, Human Rights and Product Quality and Safety. MSCI breaks these issues down into five stakeholder categories. The working

definitions for each of the five subcategories of ESG are outlined below and come from MSCI's Research and Ratings Methodology (KLD 2009).

*Environmental:* a company's management of its environmental challenges, including its efforts to reduce or offset the impact of its products and operations.

*Community & Society:* how well a company manages its impact on the communities where it operates, including its treatment of local populations, its handling of human rights issues and its commitment to charitable giving.

*Employees & Supply Chain:* a company's record in managing its employees, contractors and suppliers. Issues of particular concern include labor-management relations, anti-discrimination policies and practices, employee safety and the labor rights of workers throughout the company supply chain.

*Customers:* the quality and safety record of a company's products, its marketing practices, and its involvement in anti-competitive controversies.

*Corporate Governance & Ethics:* a company's investor relations and management practices, including company sustainability reporting, board accountability and business ethics programs.

### C. Selection Process

The commercial banks JP Morgan Chase, Bank of America, Citibank, Royal Bank of Scotland, HSBC Holdings and Barclays were chosen for the following reasons. First, commercial banks are the subject of this research because of their huge importance to the economy and their voluminous interactions with the general public (Cheung and Mack 2010:7). Second, the choice of the top three commercial banks by asset size from both the UK and the US mitigates against variables that may otherwise affect the outcome of the research, namely the impact of the industrial sector differences on CSR patterns.

“Since firms operating in the same industry face similar challenges, common CSR patterns and regulations are likely to develop” (Jackson and Apostolakou 2010:374). By focusing on one sector, differences in ESG Ratings can be attributed to a source outside that of industry. This selection of firms also takes into consideration other firm-level variables known to influence CSR, such as firm size and financial performance (Jackson and Apostolakou 2010:378). Larger firms are likely to receive greater scrutiny from the general public, government and various NGOs, which may encourage them to have more explicit CSR strategy. Therefore, the research is focused on banks, which tend to be in the medium- to low-impact industries in terms of activities related to CSR (Jackson and Apostolakou 2010:379).

### D. The Data and Collection

ESG data was collected from the MSCI Socrates Global Research Database on my six research subjects, JP Morgan Chase, Bank of America, Citibank, Royal Bank of Scotland, HSBC Holdings and Barclays. The environmental, social and governance data

was compared on its own terms and with regard to the national context of the commercial bank. The national context was established with the help of the Bertelsmann Stiftung and GTZ CSR Navigator (2007) by investigating the following areas: political, social and economic system, CSR-relevant public policies and CSR-relevant legislation in both the US and UK.

#### E. Data Analysis

The analysis of the data collected consisted of examining and categorizing the components of the ESG ratings as well as the political, social and economic system, CSR-relevant public policies and CSR-relevant legislation in both the US and UK to address the research questions (Tellis 1997). Specifically, the political, social and economic system, CSR-relevant public policies and CSR-relevant legislation were categorized into one of the four public sector roles described by Fox. et. al. (2002) as either mandating, facilitating, partnering, or endorsing to answer: Are there differences between the ways commercial banks practice CSR in the two countries? Can the differences be attributed to the public sector tools used in their respective governments? Does the industry perspective of CSR supersede the national perspective of CSR, meaning are there no differences in CSR to be found between US and UK commercial banks' CSR activities?

#### F. Policy Implications

The public policy implications of the research are two-fold. Firstly, many advocates of CSR hold the UK model up as a prominent, positive example of effective



use of CSR public policies without empirical evidence to prove any effect of the policies on the actions of the pertinent stakeholders, in this case commercial banks. This research hopes to identify trends in CSR indicators that may be attributed to the UK model.

Secondly, CSR advocates routinely criticize the United States' lack of public policies pertaining to CSR and doubt the effectiveness of the voluntary approach on behalf of the business sector, which comprises most of U.S. CSR initiatives.

In comparing key CSR indicators between the United Kingdom and the United States, this research examines if there is any significant difference in results arising from different public sector tools and different national approaches. These findings will help give new insight on the subject of CSR public policies and inform future policy makers on the most effective use of time and resources as it pertains to CSR public policies.

#### IV: Results

The results of the research are presented below and will be organized as follows.

First I will summarize MSCI ESG Global Socrates Rankings for each commercial bank in the sample to highlight how the commercial banks ranked in each category of ESG (customer, employee & supply chain, environment, corporate governance & ethics and community & society) against the industry average. The UK banks are presented first followed by the US banks.

Next, I present the results of the overall ratings of the six banks in question (JP Morgan Chase, Bank of America, Citibank, Royal Bank of Scotland, HSBC Holdings and Barclays) and their implication for the main hypothesis.

Next I look at national context, that is, the political, social and economic systems of each country, and how it addresses CSR.

I follow this examination with a detailed listing of governmental departments and policies pertaining to CSR and a categorization of which public-sector roles are filled by these policies and departments. The categorization is used to approximate the mix of public-sector roles used within each country, that is, to examine whether each government tends to mandate, facilitate, partner, or endorse CSR (Fox et. al. 2002:3).

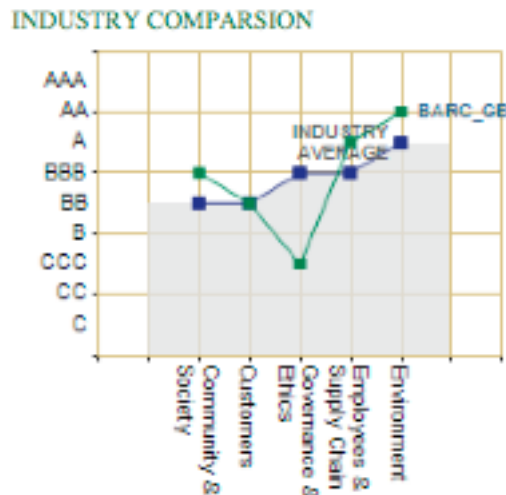
Lastly, all these results are compared cross-nationally to show major similarities and differences between the United States and United Kingdom in their role as a “driver” of CSR and to answer outstanding questions presented in the introduction of this thesis (Moon 2004).

#### A. UK Commercial Banks Ratings:

##### 1. Barclays

Barclays rates highest in environmental and climate change initiatives, lowest in business ethics and moderately in labor-relations management, human rights and customer relations. However, the human rights aspect is peculiar, considering that Barclays has one of the “most serious” records of human rights violations (MSCI ESG Research Global Socrates 2010). Barclay’s industry comparison on ESG issues is presented in the table below.

Figure 2: Barclay's MSCI ESG Rating



Source: MSCI ESG Research Global Socrates

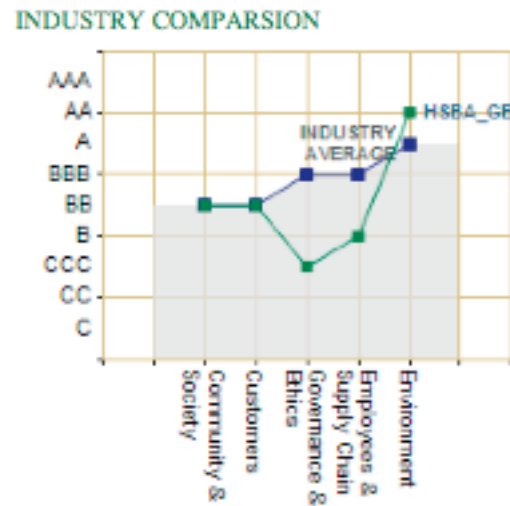
As the graph shows, Barclays rates higher than the industry standard on three of the five ESG issues, namely environment, employees and supply chain, and community and society, while meeting the industry standard on its customer issues. However, Barclays falls below industry standards in governance and ethics issues (MSCI ESG Research Global Socrates 2010). The MSCI report claims that this low rating in governance and ethics is due to a substantial number of controversies pertaining to business ethics breaches, including allegations of insider trading, improper disclosure of financial condition, fraud, tax evasion and a violation of EU sanctions (MSCI ESG Research Global Socrates 2010).

MSCI attributes Barclays' high rating on environmental issues to its noteworthy programs to address climate change, including a target to reduce CO2 emissions by 6% per employee by the end of 2011. In addition, Barclays agreed to increase its use of renewable energy such that 50% of the Barclays network in the UK will be powered using renewable energy sources (MSCI ESG Research Global Socrates 2010).

## 2. HSBC

HSBC rates high on responsible investment policy and climate change initiatives but low on environmental impacts of its products and services and workforce diversity:

Figure 3: HSBC's MSCI ESG Rating



Source: MSCI ESG Research Global Socrates 2010

HSBC meets industry standards in terms of community and society issues and exceeds the industry standard in the environment. However HSBC rates below industry standards on governance and ethics and employees and supply chain issues (MSCI ESG Research Global Socrates 2010). According to the MSCI report, the company's alleged participation in an aging money laundering controversy significantly marred its business ethics track record. The report states that, in addition, HSBC failed to monitor adequately the activities of one of its employees, which exposed the company to reputational risk when it uncovered a separate fraud and money laundering scheme in its London trade settlement division in 2008 (MSCI ESG Research Global Socrates 2010).

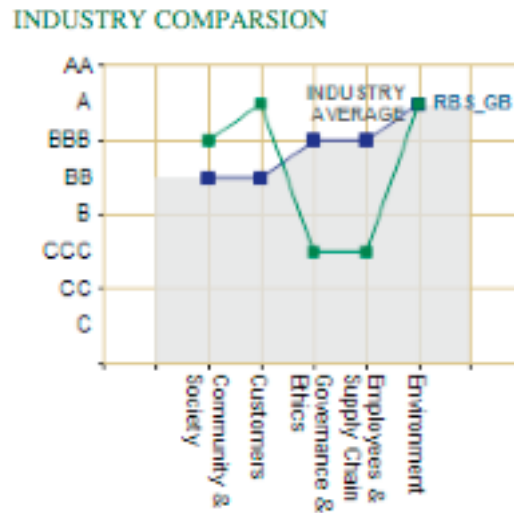
MSCI notes HSBC's activities to address climate change as a positive factor in its high environmental rating (MSCI ESG Research Global Socrates 2010). HSBC set targets to reduce greenhouse gas emissions and has achieved carbon neutrality; it reports on these emissions and its renewable energy usage through the Carbon Disclosure Project (MSCI ESG Research Global Socrates 2010).

Despite its high rating in environmental issues, HSBC has financed oil and tar sands extraction projects in Alberta, Canada. These projects are often opposed by environmentalists due to the inefficient and carbon-intensive methods used to extract oil (MSCI ESG Research Global Socrates 2010). In addition, HSBC has financed other projects that critics identify as environmentally harmful, but it has also taken steps to provide products with minimal environmental benefits, which may boost its environmental rating compared to other banks since many banks are guilty of financing environmentally harmful products (MSCI ESG Research Global Socrates 2010).

### 3. Royal Bank of Scotland (RBS)

RBS ranks high in environmental measures and customer relations and poorly in business ethics:

Figure 4: Royal Bank of Scotland's MSCI ESG Rating



Source: MSCI ESG Research Global Socrates 2010

According to MSCI, RBS' business ethics rating receives a significant amount of criticism because of its executive compensation practices after it received bailout money from the government. Several pension funds have sued RBS for alleged improper disclosure of its financial condition. The company has also been involved in lawsuits for allegedly providing financial services to possible terrorist groups. MSCI reports that RBS' controversies in this area are among the most egregious in its peer group (MSCI ESG Research Global Socrates 2010).

On the other hand, the controversies RBS faces in customer-related issues are minor when compared to its peers, resulting in a relatively high rating on customer issues (MSCI ESG Research Global Socrates 2010). Such controversies it does face are in connection with alleged charging of unfair overdraft fees to customers and lack of details on customer initiatives or programs which increase access to capital (MSCI ESG Research Global Socrates 2010).

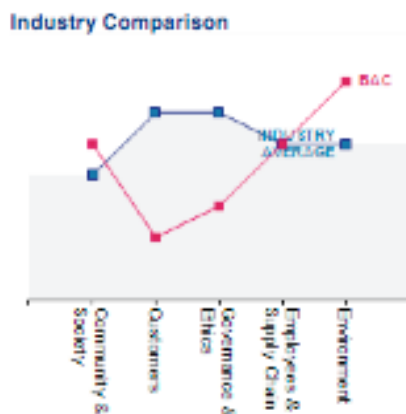
Furthermore, RBS rates high in management of environmental issues and climate change owing to its high environmental rating (MSCI ESG Research Global Socrates 2010). RBS' environmental management system includes policy that addresses its operations as well as its suppliers. It also regularly assesses its overall environmental impact and trains its employees on related issues. In addition, RBS reported energy consumption reduction targets for a majority of its operations, with a clear deadline (MSCI ESG Research Global Socrates 2010).

## B. US Commercial Banks Ratings:

### 1. Bank of America (BAC)

BAC rates highest in environment measures, exceeds the industry average in community and society measures and meets the industry average in employees and supply chain initiatives. However, it rates lowest on customer issues and below the industry standard on governance and ethics measures:

Figure 5: Bank of America's MSCI ESG Rating



Source: MSCI ESG Research Global Socrates 2011

As can be seen above, BAC exceeds the industry standard on environmental measures. This ranking is due to the fact that BAC has taken several steps to address its climate change impact (MSCI ESG Research Global Socrates 2011). As a member of the Carbon Disclosure Project (CDP), BAC discloses its CDP response. In addition, it is part of the Chicago Climate Exchange, the EPA Energy Star Program and the Business Environment Leadership Council (MSCI ESG Research Global Socrates 2011). It set a goal to reduce direct EU GHG emissions by 9% in 2009 and it reduced its utilities portfolio by 7% by 2008 (MSCI ESG Research Global Socrates 2011).

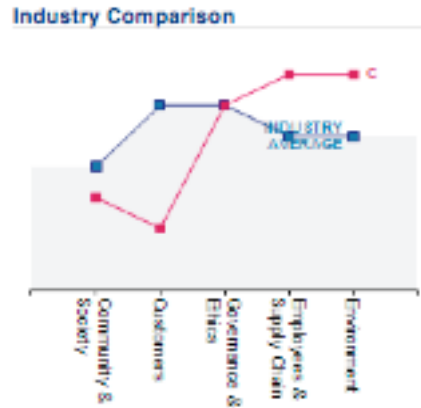
BAC's overall performance is undermined by its poor customer and business ethics practices, according to MSCI (MSCI ESG Research Global Socrates 2011). Through its Countrywide and Merrill Lynch acquisitions, BAC faces additional challenges in these areas. BAC's anti-competitive practices are of particular concern and it faces several antitrust allegations such as bid rigging charges, initial public offering (IPO) tie-ins and various controversies related to credit card practices (MSCI ESG Research Global Socrates 2011). Many of its serious customer controversies involve regulatory action or litigation. It has also been charged for money laundering, cases of insider trading, employee wrongdoing and tax evasion practices (MSCI ESG Research Global Socrates 2011). It is therefore no surprise that BAC falls well below industry averages in these categories as depicted above.



## 2. Citigroup (C)

Citigroup excels in environmental and employee and supply chain issues, meets the industry average on governance and ethics, but falls below the industry on its customer and community and society rankings:

Figure 6: Citibank's MSCI ESG Rating



Source: MSCI ESG Research Global Socrates 2011

Citigroup is one of the few banks in its peer group to belong to the UNEP Financial Services Initiative (MSCI ESG Research Global Socrates 2011). In addition Citi participates in the CDP survey, uses the WRI/WBCSD framework and has a goal to reduce its GHG emission by 10% by 2011(MSCI ESG Research Global Socrates 2011).<sup>2</sup> Together this makes Citi a leader in climate change and accounts for its high rating in environmental issues.

A strong policy on employee rights at work, an exceptional training program and strong diversity among its executives and programs to attract and employ underrepresented groups helps Citi beat industry standards in employee and supply chain initiatives (MSCI ESG Research Global Socrates 2011).

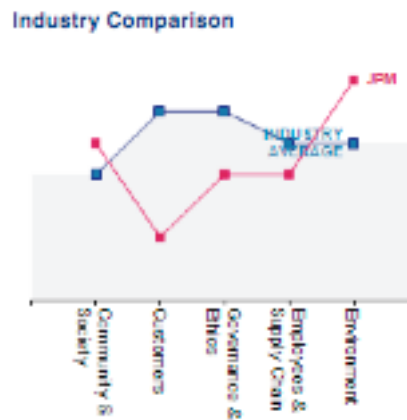
<sup>2</sup> The World Resources Institute/ World Business Council for Sustainable Development (WRI/WBCSD) framework is the most widely used international accounting tool for government and business leaders to understand, quantify, and manage greenhouse gas emissions (<http://www.ghgprotocol.org/>)

Citi's overall rating is hurt by a poor record in business ethics and customer related issues (MSCI ESG Research Global Socrates 2011). Its subprime mortgage loans and alleged discriminatory lending practices have drawn considerable criticism. Moreover, regulators have investigated Citi for excessive fees, improper sales activities and data breaches (MSCI ESG Research Global Socrates 2011). In addition, Citi has faced lawsuits because of allegations of tax evasion, insider trading, deceptive investment practices, market manipulation, money laundering and bribery (MSCI ESG Research Global Socrates 2011).

### 3. JP Morgan Chase (JPM)

JPM rates highest in the environmental category, exceeds the industry standard in community and society measures, but falls below the industry averages in customer, governance and ethics and employees and supply chain:

Figure 7: JP Morgan Chase's MSCI ESG Rating



Source: MSCI ESG Research Global Socrates 2011

MSCI attributes JPM's high environmental ranking to the steps it has taken to address climate change risks and its record offering funding for green projects like wind energy projects; it also provides carbon advisory services to its clients (MSCI ESG Research Global Socrates 2011). JPM has a comprehensive environmental policy, participates and discloses its CDP response and uses the WRI/WBCSD framework to manage its greenhouse emissions (MSCI ESG Research Global Socrates 2011).

Serious customer disputes contribute to JPM's low customer rating. Regulators have investigated JPM for excessive fees, subprime activities and discriminatory lending, as well as overbilling and non-disclosure complaints from its securities operations (MSCI ESG Research Global Socrates 2011).

JPM's business ethics record has been further marred by its Bear Stearns acquisition. Both companies have allegedly facilitated the subprime crisis through predatory lending and securitization, engaged in tax evasion, accounting improprieties and other acts of fraud (MSCI ESG Research Global Socrates 2011).

### C. Overall ESG Ratings Results

The following ratings were collected from the MSCI ESG Research Global Socrates Database (2011).

Table 2: MSCI ESG Research Ratings of Commercial Banks

Company	Barclays	HSBC	Royal Bank of Scotland	Bank of America	Citibank	JP Morgan Chase
<b>MSCI Rating Overall</b>	BBB	BB	BBB	CCC	CCC	CCC
<b>Community &amp; Society</b>	BBB	BB	BBB	BB	CCC	BBB
<b>Customers</b>	BB	BB	A	CC	CC	CC
<b>Governance &amp; Ethics</b>	CCC	CCC	CCC	CC	B	CCC
<b>Employees &amp; Supply Chain</b>	A	B	CCC	BB	A	B
<b>Environment</b>	AA	AA	A	A	A	A

Source: MSCI ESG Research Global Socrates 2011

The MSCI Rating system is based on a nine-point scale of C - AAA, with C being the lowest rating possible and AAA being the highest rating possible. This letter-based rating is similar to rating services provided by Moody's Investors Service and Standard & Poors (S&P) in relation to corporate and municipal bond ratings ("Yahoo Finance," 2011). While Moody's and S&P's definition of letter rating ranges from AAA, "highest rating available," to C or D, "imminent default or in default," the MSCI rating scale is associated with leaders versus laggards in ESG criteria as shown below ("Yahoo Finance," 2011).

Figure 8:



Source: MSCI Methodology (KLD 2009)

As is evident from the above ratings, the UK commercial banks rate higher than US commercial banks overall. Thus the null hypothesis is not true, the null hypothesis being, “there are no differences in CSR policies of commercial banks in the United Kingdom versus the United States,” as measured by MSCI ESG Ratings. If the null hypothesis were true, one would expect to find broadly similar ESG ratings among commercial banks regardless of national context or the public policy tools used to promote CSR. Since the null hypothesis is false and there are differences to be found, this research asks, what are the possible causes of these differences? Is it the national context that drives these differences or the types of public-sector roles that influence differences in ESG ratings? The following section discusses the political, economic and social systems in the countries that lay the groundwork for exploring these differences.

#### D. Political, Social and Economic Systems

##### 1. UK Political, Social and Economic Systems

In general the UK banks rated higher across ESG criteria than their US counterparts. Some researchers would suggest that this result is due to the national context of the UK, which supports CSR (Moon 2004; Bertelsmann Stiftung and GTZ 2007). However, the high cooperation between business and government, where public sector actors actively shape CSR, is a relatively new development in the United Kingdom and a result of a changing economic landscape (Moon 2004).

Politically, the UK is a constitutional monarchy, which supports a parliamentary democracy characterized by a high degree of rivalry (Bertelsmann Stiftung and GTZ 2007:152).

In the UK parliamentary democracy means, first, that the head of state is generally not involved in the legislation process, second, that the members of government are usually also members of parliament and elected by the parliament and, third, that parliament controls government and vice versa through the vote of no confidence and the right of dissolution. (Bertelsmann Stiftung and GTZ 2007:154)

Therefore, the UK is a majoritarian government (Bertelsmann Stiftung and GTZ 2007:154). Moreover, it has no codified constitution; rather, the constitution is based on traditional customs and on discrete pieces of constitutional law (Bertelsmann Stiftung and GTZ 2007:154).<sup>3</sup>

However, the political institutions of the UK alone seem unlikely to account for its CSR predominance. In fact, much like in the US, CSR in the UK was a result of the changing role of the state and a rich history of corporate philanthropy (Moon 2004:54). In the UK, the idea that business should take into consideration social and not only economic issues is traced back to the Victorian industrialist era. “Amongst the pioneers of this new era, Robert Owen, Lord Shaftsbury, Lord Ashley [sic] and John Stuart Mill called for a more responsible approach to the needs of those who failed to prosper from the industrial revolution.” (Bichta 2003:13).

For example, Lord Ashley (who became Lord Shaftesbury when named 7<sup>th</sup> Earl of Shaftesbury in 1851) agreed to be the representative in parliament of the campaign to limit the work children could do in factories (Roberts 1994). “The 1842, Coal Mines Act,

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<sup>3</sup> Constitutional change is under way in the UK given its deepening integration in the EU (Bertelsmann Stiftung 154)

which he piloted through the House of Commons, stopped women, and children under thirteen, from working underground” (Roberts 1994).

In 1815 Robert Owen promoted *A Bill to Regulate the Employment of Children in Textile Factories* and published his *Plan for the Relief of the Poor* in 1817 (Roberts 1994). While his plans were rejected, as an entrepreneur Owen funded a range of welfare activities including public health and education along with like-minded entrepreneurs such as Cadbury and Leverhulme (Bichta 2003:13).

John Stuart Mill, on the other hand, argued against the type of paternalism advocated by his peers; paternalism being where a benevolent, but authoritarian, government provides for the welfare of the people (Roberts 1994). Nonetheless he advocated for the rights of the working class, particularly in developing the role of women (Roberts 1994).

The gap created during 19th century industrialization was filled not only by philanthropic institutions like churches but also by corporations acting paternalistically (Moon 2004:3). Prior to industrialization and the subsequent spike in the urban population, local UK government had historically provided “assistance of last resort” to impoverished families. However, local government was unable to adapt to the task of providing assistance to a mass urban society (Moon 2004:3-4). Into this gap stepped companies like Cadbury and Lever Brothers, which provided a social infrastructure for workers and their families.<sup>4</sup> UK corporations’ contribution to societal governance during this time was described by the distinguished American observer of British politics

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<sup>4</sup> This social infrastructure included housing for their employees, families and even former employees as well as retail outlets, education, baths, pubs, and other recreational facilities (Moon 4).

Samuel Beer (1965) as “part and parcel to a relatively benign and consensual social, political and economic compact between producers and consumers” (Moon 2004:5).

From the beginning to the middle of the 20th century a major shift occurred in the roles of government and business in responsibility for society. During this time the national government grew state provisions to encompass many activities that were previously administered by corporate and other forms of philanthropy (Moon 2004:4). These state provisions included public employment, sickness and old-age insurance systems, tax payer-funded educational provisions, and basic utilities (water, energy and communication systems) (Moon 2004:4). Corporate responsibility was increasingly relegated to a narrow form of philanthropy, mainly in the form of charitable donations (Moon 2004:4).

These new roles ran smoothly until the last quarter of the 20th century, when governability and legitimacy became pressing issues for the UK government (Bertlesman Stiftung and GTZ 2007:155). Despite the societal governance role played by corporations during the 19th century, the UK had become a unitary and centralized government in which public sector industries operated more widely than in other democratic systems (Moon 2004:6). Public insurance systems like the nationally funded sickness and old age insurance systems and health systems like the tax payer funded health provision mentioned above were unmediated by social partners and market actors (Moon 2004:6).

The last 25 years of the 20th century were marked by the UK government’s maintaining regulatory and fiscal capacity while narrowing direct delivery of social goods, the most prominent example of which was the denationalization of public utility



companies (Moon 2004:6-7). A major change came about from 1979 to 1983 as government-led discourse sought to reintegrate business actors into societal regulation (Bertlesman Stiftung and GTZ 2007:155). “For example, in the area of unemployment, where government’s fiscal obligations were initially enormous, the Thatcher government successfully led a reappraisal of responsibility for unemployment” (Moon 2004:7). Public opinion was swayed from blaming the government for unemployment to blaming general economic factors for the problem (Moon 2004:7).

During this time the government also encouraged individuals and families to take greater responsibility for social provisions such as housing, healthcare and education, provisions that the public had grown to expect from the government in pre-war years (Moon 2004:7). This change was manifest in a reduction in the value of pensions and employee benefits, the advent of charges for higher education, government incentives for personal savings, greater use of NGOs for public services, and creation of programs like the Private Finance Initiative, which encouraged private investments in transport and infrastructure (Moon 2004:7). Moon asserts that CSR was encouraged during this time as yet another strategy to offset an impending governance crisis (Moon 2004:7).

The 1980s was a significant time for growth and institutionalization of CSR in the UK (Moon 2004:8). This development was in response to the wave of urban riots caused by massive unemployment and inner-city decay (Moon 2004:9). From public speeches by the government that made business complicit in societal problems to the establishment of programs and agencies directly to CSR initiatives, the government became a major subsidizer of CSR (Moon 2004:8-9).

Business in the Community (BITC) was one such government-led CSR initiative. In 1981 BITC was established as a CSR umbrella group. Since its establishment BITC has grown to become the single largest business association for CSR, with a membership of 850 companies and a regional management and policy-making structure (Moon 2004:9; "Business In The Community," 2011).

Another shift in CSR came with the installation of Blair's Labour government in 1997. Under Blair CSR was no longer seen as a piecemeal supplement to government activity (Moon 2004:11). Blair appointed ministers in the Department of Trade and Industry with special responsibility for CSR (Moon 2004:11). CSR became further institutionalized with the growth of business associations like BITC and the emergence of institutions like the London Benchmarking Group, The Institute for Social & Ethical Accountability and The Institute for Sustainability (Moon 2004:16). In addition, over 84 CSR consultancy services emerged, and with them the business community started to include CSR increasingly within their core activities (Moon 2004:16).

Once CSR became the subject of attention outside of companies, CSR organizations and government, it was clear that CSR was embedded in the UK's political, social and economic structure. The inclusion of CSR in the investment community, media and business education was evidence of this institutionalization of CSR (Moon 2004:17).

The culmination of this shift from corporate philanthropy and charity to government-led and endorsed CSR strategy is what The Bertelsmann Stiftung's CSR Project defines as a high maturity level of CSR (Bertelsmann Stiftung and GTZ 2007:153). The UK's CSR politics and policies are comprehensively developed, with a

clearly defined responsibility for CSR and an overall strategy supported by cooperation among departments and integration of stakeholders, as well as a wide range of CSR activities to promote, facilitate, partner and endorse CSR in business (Bertelsmann Stiftung and GTZ 2007:153).

“In addition to supporting CSR organizations and policies, the Labour government has also taken initiatives to adjust the regulatory environment for CSR” (Moon 2004:14). This adjustment is evident in the UK’s 1996 amendment to the Occupational Pensions Schemes investment regulation, which required pension funds to disclose how they take into account social, environmental and ethical factors in their investment decisions onwards. This type of mandating for CSR is called “soft regulation,” as it does not require any particular behavior other than to report (Moon 2004:14).

Another important voluntary instrument that has the status of soft law is the OECD Guidelines for Multinational Enterprises, revised in 2000 (Bertelsmann Stiftung and GTZ 2007:160).<sup>5</sup> The guidelines call for the installation of a National Contact Point (NCP), which is supposed to promote the guidelines and contribute to the resolution of complaints arising from their implementation in each country that supports this instrument. In the UK The NCP is comprised of officials from The Department for Business Enterprise and Regulatory Reform (BERR), The Department of International Development (DFID) and The Foreign and Commonwealth Office (FCO). In addition, a steering board oversees the work of the NCP (Bertelsmann Stiftung and GTZ 2007:160).<sup>6</sup>

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<sup>5</sup> The OECD guidelines are part of the Declaration on International Investment and Multinational Enterprises, are recommendations for good corporate behavior dealing with employment, industrial relations, human rights, health, safety, corruption and the environment (Bertlesman Stiftung 160).

<sup>6</sup> This large staff for NCP is a recently new development taken presumably as a response to criticism from a transnational NGO network that monitors the implementation of and compliance with the guidelines. This reaction can be seen as an indicator that the UK government takes criticism of its CSR policy seriously and that the country’s civil society is proactive in shaping CSR policies (Bertlesman Stiftung 160).

With the inclusion of “soft law” legislation, the UK can be seen as using all four public-sector tools available for promoting CSR, that is mandating, facilitating, partnering, and endorsing (Fox et. al. 2002:3). This research now turns to the departments, policies and tools used by the UK government to pursue and achieve CSR initiatives.

## 2. UK Governmental Departments and Policies Pertaining to CSR

As discovered by the Bertlesman Stiftung and GTZ CSR navigator report (2007), the UK has a high level of maturity in terms of CSR public policies. To build upon the work Bertlesman Stiftung conducted on governments’ role in supporting CSR and to incorporate the World Bank’s categorization of the public sector tools for advancing CSR, I used the commercial banks’ MSCI ESG reports to gather information on the particular CSR tools used for commercial banks. Collecting the names of the departments, public bodies, policies, programs and initiatives, legislation, voluntary guidelines, international standards and NGOs from the MSCI ESG reports ensures that these are the entities that have a direct effect on the ratings of the banks in the sample.

The following table organizes the departments, public bodies, policies, programs and initiatives, legislation, voluntary guidelines, international standards and NGOs that influence commercial banks’ ESG activities into seven categories. This table purposefully does not include individual bank’s CSR programs or policies, as those are not the subjects of this research.

While NGOs are not the focus of the research, those that were specifically named in the report are included in the table to represent the stakeholders that actively partner

with government to inform and recommend policies and legislation that affect commercial banks and their CSR activities.

An “x” in any of the columns denotes which type of activity is carried out by the department, public body, policy, program, initiative, legislation, voluntary guideline, international standard or NGO in the corresponding row. As can be seen, some rows contain more than one “x.” In these cases it was clear that the entity performed more than one CSR activity. Otherwise, an “x” denotes the primary activity of the entity. I categorized the entity or policy based on the classification of public sector activities and roles in the two tables found in Fox et. al.’s baseline study of public sector roles in strengthening corporate social responsibility (2002). Those tables can be found in Appendix I of this study.

Table 3: UK CSR-related Government Bodies and Activities

UK	Departments	Mandate	Facilitate	Partner	Endorse
	Department for Business and Enterprise (Now The Department for Business Innovation and Skills)	x	x	x	x
	Department for International Development	x	x	x	x
	Foreign and Commonwealth Office	x	x	x	x
	National Fraud Authority	x	x		
	Office of Fair Trading	x	x		
	The Department of Health	x	x		
	Department for Environment Food and Rural Affairs	x	x	x	x
	Government Equalities Department	x	x	x	x
	Office of Government Commerce (part of the Cabinet Efficiency and Reforms Group)	x	x	x	x
	Forestry Commission	x	x		
	HM Treasury	x	x		
	<b>Non-departmental public body</b>				
	Health and Safety Executive	x	x		
	UK Green Building Coalition	x	x	x	x
	Financial Services Authority	x	x		

	<b>Policies and Programs and Initiatives</b>				
	Access to Capital Program and Policies	x	x		
	International Strategic Framework		x		
	Microfinance Program	x	x		
	Millennium Development Goals		x		
	Sustainable Procurement		x		
	Business Broker Programme		x		
	Green Power Tariffs		x		
	Just Pensions	x			
	Water and Sanitation for the Urban Poor (WSUP)	x	x		
	Securing the Future		x		
	UK Emission Trading Program		x		
	BITC's and BERR's Awards for Excellence				x
	BITC's Corporate Responsibility Index, sponsored by BERR				x
	The Queen's Awards for Enterprise				x
	Small Business Development Program (CDFIs)	x	x		
	<b>Legislation</b>				
	1995 Pensions Act [Revised 2000]	x			
	Burma Sanctions	x			
	Community Tax Relief and Legislation	x			
	Companies Act [and revision]	x			
	Consumer Protection	x			
	Environmental Legislation	x			
	Health & Safety Regulation	x			
	Payroll Giving Legislation	x			
	Corporate Giving & Philanthropy	x			
	Discrimination Laws	x			
	Environmental Fines	x			
	Equal Opportunity Law	x			
	Occupational Safety & Health Laws	x			
	UK Forestry Guidelines	x			
	<b>Voluntary Guidelines</b>				
	CSR Reporting		x	x	
	Equator Principles		x	x	
	Ethical Trading Initiative (ETI) [\$\$\$ from DFID]		x	x	
	European eco-label The Flower		x	x	
	Investors in People Standard		x	x	
	UNEP Financial Services Initiative		x	x	
	United Nations Global Compact		x	x	
	Universal Declaration of Human Rights		x	x	
	Wolfsberg Statement on Corruption		x	x	
	BREEAM (green building)		x	x	
	UK Green Building Coalition		x	x	
	<b>International standards &amp; soft law</b>				
	Cluster Munition Coalition		x		

	Extractive Industries Transparency Initiative (EITI)		x		
	GHG Reporting Protocol		x		
	Global Sullivan Principles		x		
	GRI Reporting		x		
	ILO Core		x		
	International Organization for Standardization		x		
	ISO 14000		x		
	Norms on the Responsibilities of Transnational Corporations (Human Rights)		x		
	OECD Guidelines for Multinational Enterprises		x		
	OECD Guidelines/ Corp Governance		x		
	Equator Principles		x		
	Ethical Trading Initiative (ETI) [\$\$\$ from DFID]		x	x	
	European eco-label The Flower		x		
	Investors in People Standard		x		
	UNEP Financial Services Initiative		x		
	United Nations Global Compact		x		
	Universal Declaration of Human Rights		x		
	Wolfsberg Statement on Corruption		x		
	BREEAM (green building)		x		
	UK Green Building Coalition		x		
	Business Leaders Initiative on Human Rights (BLIHR)		x		
	NGOs				
	Amnesty International			x	
	Business in the Community (BITC)			x	
	Carbon Disclosure Project			x	
	Corporate Responsibility Coalition (CORE)			x	
	CSR Academy			x	
	Fair Finance Watch			x	
	Fairtrade Foundation			x	
	Friends of the Earth			x	
	Oxfam			x	
	SustainAbility			x	
	Trades Union Congress			x	
	UN Global compact			x	

### 3. US Political Social and Economic Systems

In general the US banks rated lower across ESG criteria as compared with their UK peers. Some researchers argue this laggard position of the United States is a result of uncoordinated CSR policies and programs on the federal level (Bertelsmann Stiftung and

GTZ 2007; GAO 2005; Aaronson 2003). Others suggest the difference is based on the United States business culture's general distrust of government authority, which led to more voluntary and self-interest driven corporate policies, programs and strategies as part of CSR (Aaronson and Reeves 2002a; Matten and Moon 2008; Albareda et. al. 2007). However, the high level of engagement on the part of the business sector and relatively low engagement on the part of the public sector is the legacy of a long tradition of philanthropy and liberal institutional structures in the United States (Bertelsmann Stiftung and GTZ 2007; Matten and Moon 2008).

The key distinguishing feature between American and European political systems is the power of the state, which tended to be greater in Europe than in the United States (Matten and Moon 2008:407). The political system of the United States is based on the framework of a presidential republic where the president is the head of the state and power is separated and balanced between the executive, legislative and judicial branches of government (Bertelsmann Stiftung and GTZ 2007:166). The federal government shares sovereignty with state governments, which retain a high degree of autonomy and responsibility (Bertelsmann Stiftung and GTZ 2007:166).

While social welfare services such as unemployment compensation, housing assistance and family support programs are partly covered by the federal and partly by state governments, their scope is limited in comparison to many European countries where governments have nationalized insurance systems for health, pensions, and other social commodities, or have mandated corporations to assume responsibility in these areas (Bertelsmann Stiftung, 168, Matten and Moon 2008:407). "This [limited scope] is partly due to the dominant value of the individual responsibility as well as the significant



impact of corporates' philanthropic activities, which address a range of issues” (Bertelsmann Stiftung and GTZ 2007:168). These limitations in public welfare provisions are partly compensated for by charitable contributions made by corporations, individuals and religious organizations in the United States (Bertelsmann Stiftung and GTZ 2007:168).

Indeed, as compared to Europeans, there is a much stronger American ethic of stewardship and of “giving back” to society that is supported by a relatively greater capacity for individual participation, as noted by De Tocqueville’s writings in 1835, a relatively greater capacity for philanthropy as noted by Bremner in 1988 and a relatively greater capacity of business philanthropy as noted by Dowie in 2001 (Matten and Moon 2008:408). This action on the part of individuals and business is accompanied by relatively greater skepticism about big government (King 1973), and relatively greater confidence about the moral worth of capitalism (Vogel 1992) owing to a very different approach to the relationship between society, business, and government (Matten and Moon 2008:408). This American stewardship is epitomized in early American philanthropist Andrew Carnegie’s view that “the duty of the man of Wealth [is] to consider all surplus revenues which come to him simply as trust funds, which he is called upon to administer... in a manner... best calculated to produce the most beneficial results for the community” (Matten and Moon 2008:408).

Andrew Carnegie along with other American entrepreneurs like Francis C. Lowell, Ford and Rockefeller placed education in the center of the relationship between individual entrepreneur and corporate responsibility, understanding it as the means to personal advancement. Their contributions to private universities introduced a culture of

private support for public goods that still persists in the American thinking today (Bichta 2003:13).

That is not to say the United States government did not play a role in developing business responsibility. To the contrary, the notion of corporate social responsibility emerged in the United States of America as a social and political reaction to the rapid growth of capitalism during the thirty years following the American civil war (1861 - 1865) (Bichta 2003:13). In the 1870s companies started to grow to the size that we know them today and with them grew an “anti-trust movement” against “robber barons,” that is, corporations that had become too powerful, wasted resources, were politically dangerous and socially irresponsible (Bichta 2003:13). The federal government responded to this development as early as the 1890s, passing laws on child labor, safety at industrial sites, and on workers’ rights to form unions. American government also passed legislation on labor protection, public utilities and banking services during the nineteenth and in the early twentieth century (Bichta 2003:13).

Following the economic boom of the 1950s came political upheavals in the 1960s and social movements in the 1970s that laid the groundwork for questioning authority and for civil society to organize itself around issues such as the environment (Bertelsmann Stiftung and GTZ 2007:168).

The prolonged period of post-war economic growth and the birth of vibrant cultures such as environmentalism and feminism, mobilized the public in demanding from company’s commitment to environmental protection, recruitment of minorities, charitable donations, and community investment. Rachel Carson’s book - *Silent Spring*, stressed all the problems that the unrestricted use of pesticides caused on air

and water. Miller (1995) cites specific events such as the first earth days, held in America in 1970s, the demand by anti-Vietnam war activists for businesses to stop producing chemical weapons, African-American and female groups' campaigns for equality in the workplace, and protests against the use and transportation of toxic materials as having an impact on the way companies were expected to run their business. (Bichta 2003:14)

The federal government responded to these pressures to some extent by creating the US Environmental Protection Agency, but the relations between the public sector and civil society continue to be strained (Bertelsmann Stiftung and GTZ 2007:169).

Corporations, on the other hand, responded positively to the new legislation, realizing, first, that environmental policy could not be formulated without their expertise and, secondly, that a uniform set of national regulations would provide a "level playing field" for business (Bichta 2003:14).

These social movements were followed by increased activity by non-governmental organizations (NGO's) in the late eighties and early nineties that led business to develop a more sophisticated approach to CSR, known as "enlightened self-interest" (Bichta 2003:7). In this context, the chemical industry developed the "responsible care" program in Canada in the mid-80s, but participation to the program became a requirement for membership of the Chemical Industries Association that the US Chemical Manufacturers Association (CMA) joined in 1988 (Bichta 2003:7).

This style of CSR, whereby businesses create and promote their own programs to either gain a competitive advantage or as means to respond to civil society, NGO or consumer pressures, is the norm in the United States (Bertelsmann Stiftung and GTZ

2007:172). It is what Dirk Matten and Jeremy Moon (2008) defined as “explicit CSR” or corporate policies, generated “explicitly” by the corporation, that assume and articulate responsibility for some societal interests through voluntary programs and corporate strategy (Matten and Moon 2008:409).

Disappointing performance of many US firms in late 1980s and 1990s and corporate governance scandals prompted investors to search for ways of exerting more direct pressure on the firm and its management. They turned to state legislation. “By 1991, twenty-nine states in the US had adopted statutes, which specified that boards of directors have a right to consider the interests of non-shareholder, stakeholders, in board decision-making” (Bichta 2003:23).

In addition, the federal government has responded with legislation like the Sarbanes-Oxley Act of 2002 that established standards on issues such as auditor independence and financial disclosure (Bichta 2003:23; Bertelsmann Stiftung and GTZ 2007:176). Through the Securities and Exchange Commission (SEC), the government began an initiative in 2003 that obligates all managers of investment funds to report on the voting at general meetings to encourage shareholders to bring up issues related to Socially Responsible Investments (SRI) (Bertelsmann Stiftung and GTZ 2007:176).<sup>7</sup>

Despite a history of philanthropy and the development of business and government strategies to address business responsibility, CSR has remained largely the domain of corporations and their owners in the United States. The Bertelsmann Stiftung and GTZ has claimed that the federal level CSR is fragmented and patchwork in nature, comprised of over 50 programs at 12 agencies related to global CSR (Bertelsmann Stiftung and GTZ

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<sup>7</sup> The SEC is a US government agency that oversees and regulates the stock market. Socially Responsible Investing (SRI) as an investment philosophy that includes non-financial, ethical (e.g., social and environmental) objectives.

2007:179; GAO 2005). “There is no visible contact person or coordination point for CSR and no visible formulation of a CSR strategy by the government” (Bertelsmann Stiftung and GTZ 2007:180). The Bertelsmann Stiftung and GTZ (2007) report therefore finds the level of CSR public policy in the United States as early second generation, that is, characterized by a long-standing CSR-related background with inclusion of some international standards, soft law and only basic CSR policies (Bertelsmann Stiftung and GTZ 2007:9)

#### 4. US Governmental Departments and Policies Pertaining to CSR:

The Bertlesman Stiftung and GTZ CSR navigator report categorizes US CSR public policies as early second generation, meaning there is no visible contact person or coordination point at the federal level for CSR and no visible formulation of a CSR strategy by the government (Bertlesmann Stiftung and GTZ 2007:167). To build upon the work Bertlesman Stiftung conducted on governments’ role in supporting CSR and to incorporate the World Bank’s categorization of the public sector tools for advancing CSR, I used the commercial banks’ MSCI ESG reports to gather information on the particular CSR tools used for commercial banks. Collecting names of the departments, public bodies, policies, programs and initiatives, legislation, voluntary guidelines, international standards and NGOs from the MSCI ESG reports ensures that these are the entities that have a direct effect on the ratings of the banks in the sample.

The following table organizes the departments, self-regulatory organizations, policies, programs and initiatives, legislation, voluntary guidelines, international standards and NGOs that influence commercial banks’ ESG activities into seven

categories. This table purposefully does not include individual bank's CSR programs or policies as those are not the subjects of this research. Note, however, that the US table does include some state regulatory bodies which reflects the particular political structure of the US. The table includes only those state regulatory bodies mentioned in the MSCI reports.

While NGOs are not the focus of the research, those that were specifically named in the report are included in the table to represent the stakeholders that actively partner with government to inform and recommend policies and legislation that affect commercial banks and their CSR activities.

An "x" in any of the columns denotes which type of activity is carried out by the department, self-regulatory organization, policy, program, initiative, legislation, voluntary guideline, international standard or NGO in the corresponding row. As can be seen, some rows contain more than one "x." In these cases it was clear that the entity performed more than one CSR activity. Otherwise, an "x" denotes the primary activity of the entity. I categorized the entities or policies based on the classification of public sector activities and roles in the two tables found in Fox et. al.'s baseline study of public sector roles in strengthening corporate social responsibility (2002). Those tables can be found in Appendix I of this study.

Table 4: US CSR-related Government Bodies and Activities

US	Departments	Mandate	Facilitate	Partner	Endorse
	US Small Business Administration	x	x	x	
	California Department of Financial Institutions	x			
	US Equal Employment Opportunity Commission	x			
	Department of Commerce	x			
	Department of Energy	x			
	US Environmental Protection Agency	x	x	x	x

	Export-Import Bank of the US	x			
	Inter-America Foundation	x			
	Department of Labor	x			
	Overseas Private Investment Corporation	x			
	US Securities and Exchange Commission	x			
	Department of State	x			
	Department of the Treasury	x			
	US Agency for International Development (USAID)	x	x	x	
	Office of the US Trade Representative	x			
	Federal Reserve Board	x			
	Federal Trade Commission	x			
	Government Accountability Office		x		
	Federal Deposit Insurance Corporation	x			
	<b>Self-regulatory Organizations (SROs)</b>				
	Financial Industry Regulatory Authority (FINRA, the new SRO created from the merger of NASD and NYSE regulatory departments)	x			
	NASD	x			
	NYSE	x			
	<b>Policies and Programs and Initiatives</b>				
	Community Development (CDFIs and CDCs)	x		x	
	Disadvantaged Groups/ Low Income Borrower Programs	x			
	Employee Health & Safety Policies and Programs	x			
	Maternity Leave Federally mandated	x			
	Occupational Health and Safety guidelines	x			
	Women & Minority Outreach Initiatives	x			
	Work/Life Benefits	x			
	EPA Green Lights Program		x		
	EPA Smartway Transportation Partnership		x		
	Public and Private Foreclosure Prevention Programs		x		
	Troubled Assets Relief Program	x			
	REC - Renewable Energy Credits		x		x
	<b>Legislation</b>				
	Bribery & Corruption Act	x			
	Americans with Disabilities Act	x			
	Community Reinvestment Act	x			
	Consumer Protection Regulations	x			
	SEC rule on Executive Compensation	x			
	Home mortgage disclosure act	x			
	Know Your Customers Rule	x			
	New York Attorney General Financial Regulation Enforcement	x			
	Ponzi Scheme regulation	x			
	Predatory Lending regulation	x			
	Student Lending Code of Conduct	x			

	Tax Shelter law	x			
	Whistleblower laws	x			
	Equal Opportunity Laws	x			
	Investor Protection Laws	x			
	Red-lining (Discriminatory Lending Laws)	x			
	Anti-trust violations	x			
	Internal Revenue Service (IRS) regulation	x			
	Securities Law	x			
	Employee Free Choice Act	x			
	Employee Stock Option Plan	x			
	ERISA laws	x			
	<b>Voluntary Guidelines</b>				
	Business Roundtable Climate RESOLVE		x	x	
	North American Securities Administration Association		x	x	
	GHG Reporting Protocol/ WRI/WBCSD framework		x	x	
	ISO 14001 Certification		x		
	Carbon Principles		x		
	Green Procurement		x		
	GRI guidelines		x		
	UN Global Compact		x		
	UNEP Financial Services Initiative		x		
	CSR Reporting		x		
	Equator Principles		x		
	<b>International standards &amp; soft law</b>				
	Human Rights Campaign Corporate Equality Index		x		
	World Bank's Pollution Prevention and Abatement Guidelines		x		
	Consumer Credit Counseling Service		x		
	Green Training		x		
	Department of Justice Anti-Trust Division		x		
	Mountain top removal coal-mining		x		
	Energy Star's Million Monitor Drive		x		
	EPA Climate Leaders Program		x		
	EPA Green Power Partnership		x		
	Green Communities Initiative		x		
	Hope Now Alliance		x		
	Local Initiatives Support Corporation		x		
	LEED Certification		x		
	Business Roundtable Climate RESOLVE		x		
	North American Securities Administration Association		x		
	GHG Reporting Protocol/ WRI/WBCSD framework		x		
	ISO 14001 Certification		x		
	Carbon Principles		x		
	Green Procurement		x		
	GRI guidelines		x		
	UN Global Compact		x		



	UNEP Financial Services Initiative		x		
	CSR Reporting		x		
	Equator Principles		x		
	NGOs				
	CANICCOR			x	
	Carbon Disclosure Project			x	
	Center for Responsible Lending			x	
	Ceres Signatory			x	
	Enterprise Community Partners			x	
	Environmental Defense			x	
	FSC Standards for investing in forestry			x	
	Interfaith Center for Corporate Responsibility			x	
	National Council of Women's Organization			x	
	Natural Resources Defense Council			x	
	Neighborhood Assistance Corporation of America (NACA)			x	
	Rainforest Action Network			x	
	WBENC			x	

## V: Comparisons of CSR-related bodies and activities

This research began by questioning whether different public sector tools could be the explanation for differences in ESG ratings amongst a group of six commercial banks, three from the United States and three from the United Kingdom, if indeed differences were found. Based on an extensive literature review and building upon the work already accomplished by Bertlesmann Stiftung and GTZ (2007) the World Bank (2002), and the US Government Accountability Office (2005), I thought I would find a great lack of departmental bodies, policies, legislations and CSR-related activities in the United States as compared to the United Kingdom. But as is evident from the tables in the country portions of the results, this hypothesis is not true. In fact, the United States had more departments under whose authority lie CSR-related activities that influence commercial banks. The same is true for specific legislation that influences CSR in commercial banks.

While the United Kingdom had slightly more policies, programs and initiatives dedicated to CSR, both countries seemed to have adopted about the same number of voluntary guidelines and international standards. Likewise, both countries were subject to approximately the same amount of outside NGO pressure regarding their lending policies and environmental impacts.

So why then did the UK commercial banks rank generally higher than their US peers? The research shows that the type of CSR public sector tools employed may be the answer. The overarching difference to be found in the CSR-bodies and related activities tables is in the public sector tools employed by the CSR-related departments in both countries. The majority of UK departments not only mandated, facilitated and partnered to promote CSR, but also *endorsed* the CSR-related activities they promoted.

The last column of the tables show which departments endorse CSR. In the US the only department that clearly *endorses* CSR activity is the EPA, with awards, grants and direct recognition of efforts of individual firms through the Energy Star Programs. Over half of the UK departments *endorse* CSR in addition to mandating, facilitating and partnering for CSR. This takes the form mostly of policy documents but also through the “demonstration” effect of public procurement or public sector management practices (Fox et. al. 2002:3-6).

The UK government not only lays out CSR-related policies, programs and activities through its departments, but also adopts and models many of the same activities in its own practices. Divergent approaches on a new CSR initiative serve as an example of this “modeling,” or “endorsing” tactic on the part of the UK government as opposed to the US approach. Though both governments have increased efforts to promote green

procurement, the differing policies for promoting environmental goals through green procurement in the two countries illustrate the difference in the two governments' approaches.<sup>8</sup>

The US government recently launched the “GreenGov Supply Chain Partnership and Small Business Pilot,” a voluntary collaboration between the federal government and its suppliers to create a greener, more efficient supply chain (U.S. General Services Administration 2010). The pilot promotes clean energy and waste and pollution reduction in the federal supply chain by using greenhouse gas emissions as a measurement. Federal suppliers that join the GreenGov Supply Chain Partnership agree to voluntarily measure and report their organization's greenhouse gas emissions and participating companies will share their experiences to help GSA develop a phased, incentive-based approach to developing contracting advantages to companies that track and disclose their greenhouse gas emissions (U.S. General Services Administration 2010).

In contrast, the UK government took a more direct approach to green procurement by adopting a green procurement policy for itself. The Department for Environment, Food and Rural Affairs (DEFRA) published its “Action Plan for Driving Sustainable Operations and Procurement Across Government.” This document states that “The Government is committed to becoming the ‘greenest ever’ and will lead by example in its operations and procurement.” In planning to achieve these goals, DEFRA has established

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<sup>8</sup> “Green [procurement](#) is an approach to procurement in which environmental impacts play an important role in purchasing decisions, with procurement officers concerned about more than just price and quality. Companies which pride themselves on environmental stewardship and thoughtful care of the environment may use green procurement, among many other tactics, to ensure that they do business in an environmentally responsible way. A number of aspects of the [procurement process](#) may be adjusted to meet a mission of environmental sustainability” (<http://www.wisegeek.com/what-is-green-procurement.htm>).

“Government Buying Standards.” The Suppliers guide provides detailed standards and best approaches to sell goods and services to DEFRA. Other agencies in the British government have developed similar standards as well (Meyer 2010). Instead of just facilitating green procurement by implementing a voluntary pilot program like the US, the UK government has implemented a plan for itself, has promulgated the plan throughout its departments, a plan that serves as a model for any governmental department or company that would like to include green procurement as part of its environmental initiatives. That is as clear an endorsement of green initiatives as possible.

While the number of CSR-related bodies and activities in the US was greater than I expected to find, the overall conclusion is in line with Bertlesmann Stiftung and GTZ navigator as well as the GAO reports as far as the level of coordination and cooperation of CSR-related activities on the US federal level. “Endorsement,” or what the World Bank baseline study (2002) would categorize as “political support,” in the form of public procurement, pro-CSR management in public sector bodies and general endorsing of CSR instruments and guidelines is lacking on the part of the US government, which may show in the relative ESG ratings of its three largest commercial banks. In contrast, in the UK there is a high level of endorsement on the part of the government; that may contribute to the leadership position of UK commercial banks in their ESG ratings as compared to their US counterparts.

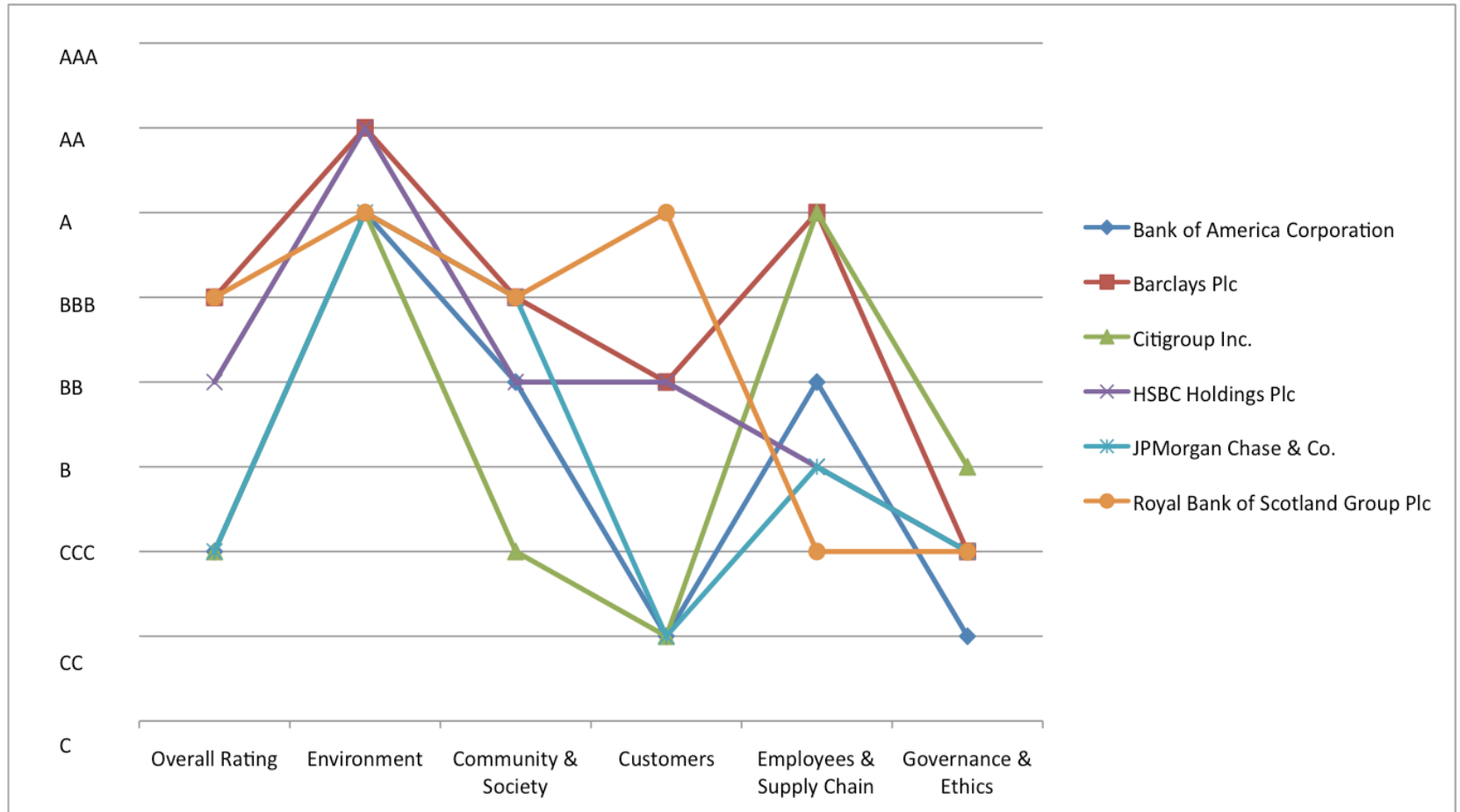
## VII: Detailed Comparison of ESG Ratings by Sector

The following chart illustrates the sector differences among the commercial banks in the five categories of ESG measured by MSCI ESG Global Socrates. A few

observations can be made. First, the UK banks rate higher overall than their US counterparts. These higher overall rankings can be linked to outperformance in almost every area of ESG but particularly in areas such as customer measures and employee and supply chain initiatives. In environment, community and society, and governance and ethics, the ratings tend to be clustered closer together with one major outlier being Citigroup's rating lowest in community and society.

Overall the banks tended to rate high in environment and low in governance and ethics regardless of national origin, indicating an industry-wide trend. Customer initiatives were the low point for all US banks, while the Royal Bank of Scotland stood out among its peers with the highest ranking in customer initiatives. Barclays enjoyed consistently high rankings in all measures except for governance and ethics, in which Citigroup was the highest rank. JP Morgan Chase was the overall laggard in ESG, with rankings generally lower than its peers (MSCI ESG Research Global Socrates 2011).

Figure 9: Comparison of MSCI ESG Ratings by ESG Issue



## A. Environment

This category takes into consideration the following elements: (1) Management of environmental issues through the companies policies, environmental management systems, certifications and regulatory compliance (2) Climate Change initiatives, (3) Non-carbon releases to air, water and land, (4) Impact of products and services both positive and negative, (5) Resource management and use and involvement in environmental controversies in each of these five areas (MSCI ESG Research Global Socrates 2011).

Evidence from the companies' MSCI reports show all banks excelling in environmental measures with two of the UK banks rating slightly higher than their peers. I will first address this subtle difference in ranking and then environmental measures as a whole.

HSBC and Barclays, the two highest rated banks in environmental measures, both include ISO 14001 in their management of environmental issues (MSCI ESG Research Global Socrates 2011).<sup>9</sup> ISO 14001 is an Environmental Management System (EMS) that encourages firms to adopt voluntarily policies dedicated to continual improvement in environmental performance (Kollman and Prakesh, 43). In addition to outlining detailed procedures for designing and implementing an environmental management system, it also requires the certification of this management system by a third party auditor (Kollman and Prakesh 2002:44).

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<sup>9</sup> Citigroup's environmental management also includes ISO 14001 Certification, however only 10% or less of its operations are covered by its external audit and as of 2006 only three facilities in the United States were certified along with its regional headquarters based in London and Dubai (MSCI 3 Of 34).

Research from Kollman and Prakesh (2002) recognized the creation of a number of supranational voluntary codes designed to encourage businesses to adopt practices intended to improve their environmental performance: ISO 14001 is one of the most advanced of these voluntary codes (Kollman and Prakesh 2002:43). They investigated the varying adoption patterns of such codes by firms in the US, UK and Germany and found domestic institutional contexts greatly influence the adoption rates (Kollman and Prakesh 2002:44). Of particular interest to this study, they found that the level of government involvement and endorsement of such voluntary codes plays a major role in their inclusion by firms' Environmental Management Systems (Kollman and Prakesh 2002:57).

The slightly lower environmental ratings in the two US banks could therefore be attributed to what Kollman and Prakesh call "adversary economies," that is economies where regulators and business are not on friendly terms and therefore are less likely to demand EMS (Kollman and Prakash 2002:56). "The term adversary economy is often employed to describe government-business relations in the US (Chandler, 1981; Marcus, 1984)" (Kollman and Prakash 2002:56).

Kollman and Prakesh (2002) trace the US adversarial economy back to the early emergence of manufacturing monopolies at the end of the 19th century. At that time the US government stepped in to regulate big business and these sometimes aggressive practices have become a part of the culture of many federal regulatory agencies (Kollman and Prakesh 2002:56). When the Environmental Protection Agency (EPA) was established in 1970, it was created to regulate and curb what was perceived to be widespread industry exploitation of the environment. Kollman and Prakesh (2002) claim



the “fragmented nature of American government and its uniquely weak bureaucracy led government agencies like the EPA to rely on the public’s right to challenge and demand corporate action through litigation (O’Leary, 1993). In the environmental field this type of ‘adversarial legalism’ manifests itself in frequent court challenges of industry activity and strict liability laws (Kagan, 1991; Kagan and Axelrad, 1997)” (Kollman and Prakesh 2002:57). This style of environmental regulation strains relations among environmental groups, government regulators and industry (Kollman and Prakesh 2002:57). It is, therefore, not surprising that US regulators have reacted cautiously to the introduction of ISO 14001.

In contrast to the US, Kollman and Prakesh (2002) find the UK has developed a very different style of environmental regulation that is based on voluntarism and co-operation between industry and government. Unlike in the US, the British government has historically been reluctant to use legally binding emissions limits to curb industrial emissions (Kollman and Prakesh 2002:57).

Although national laws do stipulate non-binding, general guidelines for emissions limits, these laws have traditionally allowed regulators to excuse factories from complying with these limits when local environmental or economic conditions make meeting these limits unnecessary or unrealistic. Given the slack in these laws, it is not surprising that in the past British environmental regulators have seldom taken violators to court and have facilitated what is often referred to as a ‘cozy’ relationship between themselves and the industries they regulate. (Kollman and Prakesh 2002:57)

As such, British regulators have reacted very positively to the introduction of ISO 14001.

The government has taken great pains to promote this standard by linking it to other voluntary initiatives such as its high profile environmental reporting and sustainable business schemes (DETR, 1998; 1999). Additionally, the Department for Environment, Transport and the Regions (DETR) has been very supportive of the British Standard Institute (BSI)'s efforts to develop EMS standards. Just recently the DETR, along with a consortium of environmental groups, agreed to help BSI develop and promote a sustainability management system (BSI, 2000a, b)<sup>10</sup> (Kollman and Prakesh 2002:57-58).

Finally, the British government offers both ISO and EMAS participating firms limited regulatory relief by using both EMS as a reducing factor in the risk assessment calculations used to determine site inspection frequencies (Cheeseborough, 1998). These positive governmental incentives have contributed to the enthusiastic response and high demand for ISO 14001 by UK firms (Kollman and Prakesh 2002).

However, that is not to say that the US is extremely laggard in its environmental initiatives. To the contrary, the environment is an ESG measure in which US banks rated quite high. This area is an example of what Bansal and Roth (2000) described as configurational equifinality (Bansal and Roth 2000:731). That is, firms, regardless of their country of origin, can reach the same final state of responsiveness from differing contextual and motivational conditions and take distinct paths to reach the same outcome

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<sup>10</sup> BSI develops private, national and international standards, certifies management systems and products, provides assessment, certification, and testing of products and services, provides training and information on standards and international trade and provides performance management and supply chain management software solutions (<http://www.bsigroup.co.uk/About-BSI/>).

(Williams and Aguilera 2007:464). National contextual conditions and motivations permit a wide range of possible initiatives or organizational responses to addressing environmental issues.

## B. Community & Society

This category takes into consideration the following factors: (1) Charitable giving and programs to support it, (2) Impact on community and (3) Human Rights initiatives and programs that support and measure the firm's active participation in efforts to promote human rights. Human rights violations and controversies are also considered (MSCI ESG Global Socrates 2011).

In this area of ESG the UK and US commercial banks generally ranked close together falling in the "B" rating range with neither country dominating the leader or laggard category. This close comparison can be attributed to similar regulatory environments in this category and programs to promote and support community development, philanthropy and charitable giving and human rights.

Three examples of similar strategies for achieving community and society impact are provided to explain these close ratings. First, government tax laws affecting corporate philanthropy are similar enough to encourage philanthropic and charitable donations on the part of corporations (Gardberg and Fombrun 2006:337). This similarity has not always been the case, however:

In 2000, the UK government altered its tax laws to encourage greater US style corporate and individual philanthropy. These examples suggest that the regulatory component of the local institutional environment sets a context for the range of

acceptable citizenship profiles. Companies can elect to either match or exceed those local legal standards—they cannot underperform. (Gardberg and Fombrun 2006:337).

Accordingly, the six commercial banks in question all contributed a portion of earnings to charitable giving. However, the 2009 corporate giving amounts that follow show that US companies did contribute more on average than their UK counterparts:

- Bank of America: \$209,116,567 (The Chronicle of Corporate Philanthropy 2011).
- Citigroup: \$94,725,463 (The Chronicle of Corporate Philanthropy 2011).
- JP Morgan Chase: \$105,224,091 (The Chronicle of Corporate Philanthropy 2011).
- HSBC: \$100,000,000 (“HSBC Annual Review,” 2009).
- Barclays \$90,000,000 (Nicols 2010).
- Royal Bank of Scotland \$57,000,000 (MSCI ESG Research Global Socrates 2011).

Secondly, government sponsored programs and initiatives have been implemented in both countries to increase access to capital. Community Development Financial Institutions (CDFIs) are but one strategy adopted by both countries to facilitate community development. “The mission of US and UK CDFIs is similar in that they endeavour ‘to improve the prosperity of the people living within [local] communities’ by creating social and ‘economic wealth’” (Appleyard 2010: 14)

However it is important to note that there are considerable differences between UK and US CDFIs.

First, in terms of numbers, US CDFIs outnumber their British counterparts by more than ten to one. Equally, the investment volume as well as the total capital of the UK sector is only a fraction of that of the US. Furthermore, UK CDFIs tend to have a very strong focus on microenterprises (defined as businesses with less than 10 employees), whereas US CDFIs direct a quarter of their funds towards personal lending. In terms of capital sources, funding in the US is strongly based on private investments, while in the UK the public sector plays a much more prominent role (most notably through the PhoenixFund and the European Union). Finally, the UK sector has recently embarked upon a period of rapid expansion, with the result that three quarters of all CDFIs are younger than 5 years. By contrast, more than 4 out of 5 US CDFIs are at least 10-years old. (Kneiding and Tracey 2008:229-330)

In addition, there has been a push from The National Council for Voluntary Organisations (NCVO) in the UK for the government to enact a UK version of the US Community Reinvestment Act (Pybus 2010). According to the Federal Reserve, “The Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound operations” (The Federal Reserve Board 2011). This further points to a likening of government strategies to provide access to capital, a major determinant of commitment to community and society.

Lastly, commercial banks have adopted similar stances in addressing human rights issues. As signatories of the Universal Declaration of Human Rights, both the US and UK make human rights preservation a priority in their international agendas.<sup>11</sup> Likewise, all the commercial banks in my sample, with the exception of Bank of America have explicit statements regarding their human rights policy, according to BankTrack.<sup>12</sup> However, only two banks, HSBC and Royal Bank of Scotland are signatories of the UN Global Compact, the voluntary guidelines that specifically account for human rights issues (MSCI ESG Research Global Socrates 2011). This indicates room for improvement and greater government guidance in this area.

Although achieving similar results, the UK and US took distinct paths to arrive at their response to community and society. Despite these differences, the same emphasis and facilitation of community development and commitment to society owes to similar rankings on this measure of ESG. Therefore the conditions of configurational equifinality as described by Bansal and Roth (2002) are met for community and society.

### C. Customers

When measuring customer initiatives, MSCI takes the following into account: (1) Marketing and advertising policies, initiatives and controversies, (2) Product and Service quality and safety, (3) Anti-competitive practices and (4) Customer relations, particularly

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<sup>11</sup> The Universal Declaration of Human Rights (UDHR) was proclaimed by the United Nations General Assembly in Paris on 10 December 1948 [General Assembly resolution 217 A \(III\)](http://www.ohchr.org/EN/UDHR/Pages/Introduction.aspx). It set out fundamental human rights to be universally protected (<http://www.ohchr.org/EN/UDHR/Pages/Introduction.aspx>).

<sup>12</sup> “BankTrack is a global network of civil society organisations and individuals tracking the operations of the private financial sector (commercial banks, investors, insurance companies, pension funds) and its effect on people and the planet” ([http://www.banktrack.org/show/pages/about\\_banktrack](http://www.banktrack.org/show/pages/about_banktrack)).

in the areas of microfinance, community development and disadvantaged populations (MSCI ESG Research Global Socrates 2011).

This measure of ESG shows the greatest difference between the UK and US-based commercial banks. Upon investigation it seems two things attribute to this disparity: (1) the propensity of litigation in the United States [evidence from number of litigations in US versus UK profiles] and (2) number of regulating bodies in the US compared to UK.

Based on a frequency count from the commercial banks' MSCI ESG profiles, Citigroup had 9 ongoing lawsuits to report at the time of the MSCI ESG review, not including settlements with regulatory agencies and fines from regulatory agencies and foreign governments (MSCI ESG Research Global Socrates 2011). Bank of America mentioned 15 lawsuits, several settlements, fines and a number of pending investigations (MSCI ESG Research Global Socrates 2011). JP Morgan Chase's profile referred to at least 9 lawsuits excluding settlements and fines (MSCI ESG Research Global Socrates 2011). Together, the US commercial banks had no less than 33 lawsuits concluded or pending at the time of the MSCI ESG review.<sup>13</sup>

In the UK on the other hand, Barclays, which was considered having "serious customer relation problems," was subject to one court ruling, a Muslim boycott and high customer complaints according to the UK Financial Services Ombudsman report (MSCI ESG Research Global Socrates 2010). The Royal Bank of Scotland likewise participated in one case brought against it by the Office of Fair Trading regarding unfair overdraft charges (RBS is appealing the court finding). HSBC had the highest number of

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<sup>13</sup> The terms "no less" are used because often multiple lawsuits were filed against many individuals for a subject such as "excessive overdraft charges," in these cases only one lawsuit was counted. That is to say, lawsuits were grouped by offense rather than individual filings.

incidence of customer issues, facing 4 lawsuits, being implicated in the Bernard Madoff scheme and suffering a penalty fee from the Financial Services Authority (MSCI ESG Research Global Socrates 2010). Despite these customer issues, HSBC still ranks “BB,” on par with the industry standard and above its US peers.

While the UK banks were subject to fines and regulatory oversight by the Financial Services Authority (FSA) and HM Treasury, the US Banks were fielding fines and decisions from FINRA, the NASD (National Association of Securities Dealers), the NYSE (New York Stock Exchange Regulatory Body), the Federal Reserve Bank and federal and state courts (MSCI ESG Research Global Socrates 2010). With so many avenues for customers to bring complaints against commercial banks, it is no surprise that US banks rated lower in customer measures.

Based on a frequency count of CSR-related government bodies and activities that pertain to customer-related issues (as presented in the preceding country-specific tables), there are far fewer customer-focused initiatives in the UK as compared to the US, 5 to 35 respectively. Again, this result relates to the heavily regulated and litigious nature of the US compared to the UK, a situation that, counter-intuitively, has actually led to better customer-oriented ratings in the UK.

Research from George J. Benston (2002) helps explain this situation. Perceived scandals, expanded consumer use of financial products and the 1930s Great Depression lead to the development and proliferation of government consumer-protection regulations in the US (Benston 277). This regulatory responsibility has been divided among many agencies in the US, whereas consumer protection regulation has been centralized since 1998 in the UK under the Financial Services Authority (Benston 2002:277-278).



Regardless of the regulatory framework, Benston (2002) argues that governments create consumer protection laws with six regulatory goals in mind: (1) to maintain consumer confidence in the financial system, (2) to assure that a supplier on whom consumers rely does not fail, (3) to assure that consumers receive sufficient information to make “good” decisions and are dealt with fairly, (4) to assure fair pricing of financial services, (5) to protect consumers from fraud and misrepresentation, and (6) to prevent invidious discrimination against individuals (Benston 279). Benston concludes that government intervention through regulation is unnecessary for achieving any of these goals except perhaps the last, preventing invidious discrimination against individuals (Benston 2002:297).

Evidence from the sample shows that greater regulation in this area, at least for the commercial banks in question, did not lead to any higher level of service or satisfaction to customers as estimated from the MSCI ratings. This category does not meet the conditions of configurational equifinality, as the different paths taken to address customer concerns created by the differing litigious environments of the US and UK did not lead to similar results in their ESG ratings.

#### D. Employees & Supply Chain

This category takes into consideration the following elements: (1) Labor-management relations including benefits, profit-sharing plans and training initiatives. Union relations are also considered, (2) Employee safety policies, practices and performance, (3) Workforce Diversity policies and programs, (4) Supply Chain policies and systems to monitor human and labor rights and controversies associated with

violations in supply chain-related violations (MSCI ESG Research Global Socrates 2011).

This measure of ESG exhibited the most varied ratings among the six subject banks, leading me to think that bank's internal policies are mostly at play in providing CSR programs for their employees and supply chains. The higher ranked banks like Barclays and Citigroup have well established supply chain initiatives, excellent life/work benefits and employee diversity initiatives (MSCI ESG Research Global Socrates 2010). The low ranking banks' profiles cited lay-offs, poor labor-relations management and declining benefits, all possible reasons for their poor performance in this area of ESG.

Of the five sectors, employees and supply chain initiatives are less covered by CSR-related government bodies and activities in both the US and UK. Based on a frequency count of CSR-related government bodies and activities that pertain to employees and supply chain initiatives, this measure of ESG comes in fourth of the five sectors in both countries. Lack of government guidance in this area could account for the diversity in rankings. Prioritization of supply chain over employee initiatives within banks or employee initiatives over supply chain could also contribute to the diversity in ranking.

My research of the literature on these topics did not reveal any further insight or explanation on why the rankings vary so widely in this category. The results suggest that employee and supply chain issues are matters basically internal to corporations and neither configurational equifinality nor national influence play a strong role in determining ESG ratings for this measure of ESG.

## E. Corporate Governance & Ethics

The fifth and final element of MSCI's ESG factors takes into account: (1) CSR Reporting and sustainability efforts, (2) Governance structures such as independence of the firm's board of directors, management of CSR issues, board diversity and the firm's executive compensation practice, (3) Business Ethics policies and programs related to anti-bribery, whistle-blower protection, the firm's use of tax havens and other tax evasions measures and (4) Public Policy Accountability that measures the firm's support, or lack thereof, for public policies that have noteworthy benefits for the environment, communities, employees, or consumers (MSCI ESG Research Global Socrates 2011).

With the recent financial downturn and banking scandals, it is no surprise that the banks did not rate well in governance and ethics measures; however, the results should alert regulators to areas of regulation reform or new legislation. There is already some evidence of that taking place in the US, while the United Kingdom established a new Financial Policy Committee (FPC) in 2010 to spot broader risks in the economy and a separate Consumer Protection and Markets Authority (CPMA) to begin operating in 2011 ([MoneyNews.com](http://MoneyNews.com) 2010).

In addition, it seems the UK has reacted more strongly to the banking crisis than the US:

Although the US government did not decide to strongly intervene in the governance of banks that have received bailout assistance (i.e., it only acquired non-voting stock with bailout funding), the UK government is exerting control over the banks which have received government aid. For example, the UK

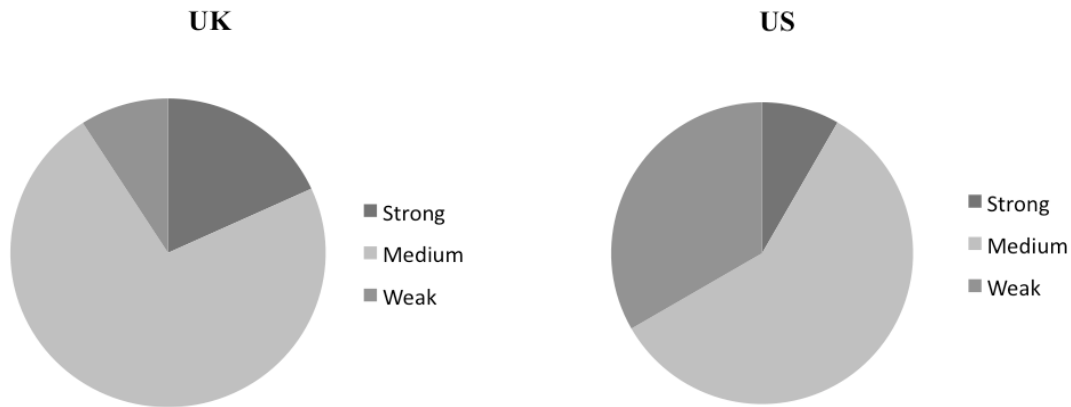
government appointed three new directors at the Royal Bank of Scotland and two directors (Grove, Patelli, Victoravich and Xu 2009:30).

Despite its stronger response, research by Kostyuk, Takeda and Hosono (2010) suggests that although they took different paths, both countries have failed to implement strong enough frameworks to achieve more effective corporate governance on the part of commercial banks.

Kostyuk et. al. outlined twelve new institutional corporate governance features in banks. Despite the weak governance of banks cited as a significant factor of the financial crisis, only moderate changes have been made to address the gaps that allowed it to happen (Kostyuk, Takeda and Hosono 2010:viii). The following pie charts constructed from Kostyuk et. al. (2010) data depicts the different approaches taken by the US and UK and points to a significant reason for the laggard positions of both US and UK commercial banks.

As the pie charts show, the majority of new governance structures actually put into place only moderately addressed corporate governance gaps. A list of the twelve “new institutional corporate governance features” as outlined by Kostyuk et. al. (2010) follow the pie charts.

Figure 10: Comparison of US-UK New Institutional Corporate Governance Features



Source: Kostyuk et. al. 2010:32 and 54

Table 5: Kostyuk et al.'s 12 New Institutional Corporate Governance Features

New Institutional corporate governance features	UK	US
Process of corporate governance standards change corporate governance codes, laws, etc.)	Moderate	Moderate
Process of advancing he compensation of bank executives	Moderate	Strong
Process of empowering contractual relationships between the banks and executives	Moderate	Moderate
Process of empowering the role of independent director	Moderate	Moderate
Process of development of the board committee system	Moderate	Weak
Process of empowering the financial reporting standards	Strong	Moderate
Process of ownership structure changes	Weak	Weak
Process of stakeholder rights' protection	Moderate	Moderate
Process of minority shareholders right' protection	Moderate	Moderate
Process of interacting between the states and the banks	Strong	Weak
Process of empowering the long-term oriented corporate governance	Strong	Moderate
Process of empowering the international corporate governance standards and practices	Moderate	Weak

Source: Kostyuk et. al. 2010:32 and 54

In comparing the reaction of the UK and US governments to historical governance failures, national context also had an effect.

The financial crisis within the United States starting in 2007 resulted in several governmental actions that affect bank operations and bank corporate governance.

The U. S. Treasury and the Federal Reserve aggressively intervened into financial markets as a result of the financial crisis. (Kostyuk et. al. 2010:18)

The actions taken by the US government included:

- TARP: “The Troubled Asset Recovery Program was created in October 2008 as part of the \$700 billion Bank Bailout bill. TARP originally gave banks the right to submit a bid price to sell their toxic mortgage-backed securities to the Treasury Dept. as part of a reverse auction” (Amadeo 2010).
- Capital Assistance Program: In February 2009 this program subjected banks with assets above \$100 billion to a series of stress tests to determine capital adequacy (Kostyuk et. al. 2010:18)
- Mortgage Assistance Program: This \$75 billion program offered incentives to banks and lending institutions to refinance or modify loans to help 9 million ‘at risk’ homeowners (Kostyuk et. al., 2010:19).

On the other hand, the UK responded with various UK codes of best practice rather than regulatory approaches when faced with similar banking failures (Kostyuk et. al. 2010:18). For example, large corporate failures and fraud due to unethical practices in the UK banking sector in the 1970s prompted the UK to establish establishing the Accounting Standard Committee by the 1990s and the Auditing Committee in 1991

(Kostyuk et. al. 2010:33). In addition, in the subsequent years various reports responded to changes and challenges in the markets (Kostyuk et. al. 2010:33). A few of the reports include:

- Cadbury Report: This report is the heart of corporate governance strategy reform in the UK. It sought to address public concern about the separation of the roles of Chairman and CEO, the appointment of independent non-executive directors and the establishment of an audit committee (Kostyuk et. al. 2010:34). However Kostyuk et. al. point out that this more voluntary approach to corporate governance led to non-compliance and less effective sanctions for commercial banks that did not follow the Cadbury Report recommendations (Kostyuk et. al. 2010:34).
- Greenbury report: This 1995 report sought to address directors' earnings, conflict of interest between directors and full transparency of directors' remuneration (Kostyuk et. al. 2010:35).
- Hampel report: This report in 1998 emphasized a more open and flexible approach to the system of corporate governance; its success was in overhauling the corporate governance strategy in regard to pension funds (Kostyuk et. al. 2010:35).
- Turnball report: This report changed the face of corporate governance strategy in the UK; it published a definitive corporate governance reference book for companies to be used as a guidance tool to ameliorate weak corporate governance strategies (Kostyuk et. al. 2010: 35).

Following the collapse of World Com and Enron, the American regulators responded with the passing of the Sarbanes-Oxley Act in 2002 so as to encourage and ameliorate on CSR and corporate governance. This Act advocated for the rotation of audit partners every five years, auditors to report to audit committee all critical issues and the establishment of a code of ethics for Senior Financial Officers. Therefore the role of CSR in corporate governance has been improved. The Hewitt/ Brown report was an equivalent of the Sarbanes- Oxley act passed in the UK. (Kostyuk et. al. 2010:37-38)

The above quote shows again that the UK and US took different approaches in addressing the governance gaps that contributed to the financial crisis. Despite these different approaches, both the UK and US fall short in meeting corporate governance standards sufficient to attain a leadership rating in the governance and ethics measure according to MSCI Ratings. Therefore this measure of ESG meets the conditions of configurational equifinality as described by Bansal and Roth (2000). The US and UK arrived at the same state of ESG rating in this area by pursuing different paths.

#### VIII: Limits of the Study

This research examines a very small sample of six commercial banks, three from each subject country, to compare and contrast national context of the United States and United Kingdom on the CSR activities of commercial banks as measured by MSCI ESG Ratings. While a small sample is required for the case study approach presented here, it makes it difficult to draw great generalizations of the CSR public sector tools' influence on all commercial banks' CSR. A larger pool of commercial banks would be necessary



to draw firmer conclusions; however, the current research provides a framework for a more extensive study of a larger sample of commercial banks.

It is also important to note that the tables of CSR-related bodies and activities were compiled from the MSCI ESG profiles of the companies. Therefore, these tables do not include all possible CSR-related bodies and activities to which commercial banks are subject. To the contrary, these are only the CSR-related bodies and activities included in the MSCI ESG Ratings at the end of 2010 (in the case of the UK companies) and the beginning of 2011 (in the case of the US companies). Further research can build upon this study to compile an exhaustive list of CSR-related bodies and activities that influence commercial banks.

Lastly, the industry focus on commercial banks limits the ability to generalize these findings to other industries. As one of the most heavily regulated industries in the US, it is possible that there are more CSR-related departments, legislation, programs and policies directed towards commercial banks than one would find directed at other industries (Kroszner 1999:1). A separate analysis would have to be conducted to see if these findings parallel the CSR framework in place for other industries in both the US and UK.

## VII: Conclusion and Points for Discussion

In conclusion, it seems likely that national context does affect the CSR policies of commercial banks in the US and the UK, as does the type of public policies tools the government uses to influence CSR activity. This influence was evident in the overall

ratings of the commercial banks as well as within each subcategory of ESG as measured by MSCI ESG Global Socrates.

Both governments use a variety of public sector tools to mandate, facilitate, partner and endorse to promote CSR; but it is in the last category where the US falls short in producing an effective CSR framework for commercial banks. The overall laggard position of US banks in their MSCI ESG Ratings could be the result of a shortcoming in this area.

However, commercial banks as an industry do exhibit similarities that should be investigated further from a regulatory and public policy standpoint. All six banks rated high in environmental measures and low in governance and business ethics.

Governments should ask themselves why this is the case. Environmental protection is not a core business function of a commercial bank, although their operations certainly have environmental impact. Managing that impact is important, but being able to conduct core business functions reliably and responsibly seems more central for expenditure of a firm's time and resources. For commercial banks that would mean promoting economic stability and growth to a wide spectrum of stakeholders, including owners, borrowers, depositors, regulators and managers (Yamak and Suer 2005).

Governance structures and business ethics are vital components to that delivery.

Specific recommendations for policy makers in both the UK and US regarding CSR policies to support commercial banks would include a new focus on governance structures which includes, but is not limited to, mandatory CSR reporting with a focus on governance issues such as independence of the firm's board of directors, management of CSR issues, board diversity and the firm's executive compensation practice.

For the United States, the findings of this research echo the recommendations put forth in the Bertlesmann Stiftung and GTZ report (2007), that is, greater coordination and clarity from the federal government regarding CSR policies and programs (Bertlesmann Stiftung and GTZ 2007:167). The political structure of the US presents unique challenges for such coordination, but efforts should be made to coordinate various federal and state activities. At the very least, a national CSR strategy describing the scope of federal CSR policy should be developed (Bertlesmann Stiftung and GTZ 2007:167). In the meantime, the US government can strengthen existing policies and programs by implementing them at the federal level and modeling them for corporations.

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## APPENDIX I

Public sector role CSR theme	Mandating	Facilitating	Partnering	Endorsing
Setting and ensuring compliance with minimum standards	Defining minimum standards and establishing targets; establishment of enforcers and inspectorates; supporting citizen legal action	Tax incentives and penalties; ensuring access to information; facilitating understanding on minimum good practice abroad; naming and shaming poor performers; frameworks for voluntary agreements; supporting civil society	Working with multilateral agencies and civil society to build capacity	
Public policy role of business	Reforming political financing; legislation as policy setting for voluntary action; mandatory disclosure of payments to public bodies	Engaging business in public policy processes; clearly defining societal priorities; including CSR elements in other policy areas	Forums for debating public policy proposals	Including business representatives in policy arenas
Corporate governance	Stock exchange regulations and codes; company law	Implementing international principles	Multi-stakeholder code development	
Responsible investment	Guidelines for FDI; requirements for government loan guarantees	Facilitating legislation for SRI; guidelines for public investments; linking investment opportunities to SD policy	Public-private partnerships	Endorsing metrics and indicators; supporting civil society initiatives
Philanthropy and community development	Mandating corporate contributions	Tax incentives; "timebank" schemes; league tables to promote peer pressure	Public-private partnerships	Publicizing leading corporate givers
Stakeholder engagement and representation	Licensing requirements for stakeholder consultation	Supporting civil society engagement; defending key stakeholder interests in key forums	Facilitating dialogue and multi-stakeholder processes	Association with particular multi-stakeholder processes
Pro-CSR production and consumption	Pollution taxes; command and control legislation driving pro-CSR innovation	Pro-CSR export initiatives; capacity building; business advisory services; enterprise development; public procurement; voluntary CSR labels; education and awareness raising; support for civil society action; tax incentives	Joint government-industry investment in capacity; developing sectoral guidelines	Public procurement; pro-CSR management in public sector bodies; labeling schemes
Pro-CSR certification, "beyond compliance" standards and management systems	Mandatory environmental management systems	Information and capacity building; supporting business-to-business partnering / mentoring; public procurement; tax and regulatory incentives; supporting supply chain initiatives and voluntary certification	Engaging in standards-setting processes	Endorsing specific standards systems and approaches; public procurement and public sector practices
Pro-CSR reporting and transparency	Mandatory reporting	Guidelines for voluntary reporting; informal incentives	Engaging in multi-stakeholder dialogue on guidelines	Supporting instruments for peer pressure; commending reporters
Multilateral processes, guidelines and conventions	Implementing guidelines through legislation	Capacity building and technical support	Negotiating agreements; shared monitoring	Endorsing guidelines

Mandating	"Command and control" legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	"Enabling" legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Source: International Bank for Reconstruction and Development / The World Bank: Public sector roles in strengthening corporate social responsibility: a baseline study, 2002.